Austria	Sch24	Iran	Rls210	Pakistan	Rs35
Bahrain	Din0.700	Israel	Shk3.50	Philippines	Pes40
Belgium	BFr55	Italy	L2000	Poland	Zl 9,000
Cyprus	C£0.90	Jordan	JD1	Portugal	Es165
Denmark	DKr12.00	Korea	Won 2000	Qatar	QR9.50
Egypt	E£3.25	Kuwait	Fils500	S.Arabia	SR8.00
Finland	FM8.50	Lebanon	L£900.00	Singapore	S$4.10
France	FFr7.50	Lux	LFr55	Spain	Pta165
Germany	DM2.60	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr180	Morocco	MDh9.00	Switz	SFr2.50
Hungary	Ft107	Neth	Fl 3.25	Thailand	Bt45
Iceland	IKr185	Nigeria	Naira12	Tunisia	Din0.800
India	Rs15	Norway	NKr12.00	Turkey	L2000
Indonesia	Rp3100	Oman	OR1	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

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Monday November 26 1990

D 8523A

THE COMMUNITY
Economic giant, political pygmy
Page 18

World News

Arab-Israeli tension rises as 10 killed in attacks

At least 10 people – six Arabs and four Israelis – were killed in three separate and apparently unrelated attacks in Lebanon and on the Israeli-Egyptian border. Page 3

Reform threatened

Attempts by the Bulgarian government to implement a package of economic reforms looked set to fail following a decision by the opposition Union of Democratic Forces (UDF) to withdraw completely from parliament, and a call by Podkrepa, the independent trade union movement, for a nationwide strike. Page 4

Talks on ties

Syria and Britain discussed possible resumption of full diplomatic ties, broken off in 1986 after London accused Damascus of involvement in an attempt to blow up an airliner. Page 3

Sikh violence

Sikh extremists with assault rifles shot dead 13 people and wounded seven in Jullundur in the north Indian state of Punjab after nearly 300 Sikh political and religious leaders had been arrested to enforce a ban on a meeting called to bring unity to the divided community. Page 2

Rebels elected

A breakaway Russian-speaking region of Soviet Moldovia completed elections for a rebel parliament, setting it on course for confrontation with Moscow and republican authorities.

South Koreans riot

South Korean riot police firing tear gas stormed onto a Seoul university campus to crush a huge anti-government rally by dissidents and students demanding the resignation of President Roh Tae-woo.

UK-Argentine deal

Britain and Argentina reached a preliminary accord over fishing rights in the South Atlantic, following negotiations in Madrid. Page 2

Tigers claim camp

Tamil Tiger guerrillas claimed to have captured a Sri Lankan army camp about 175 miles north of Colombo, but the defence ministry said troops were fighting their way out through besieging rebels.

Minister resigns

The Information Minister of Kuwait's exiled government, Sheikh Jaber Mubarak al-Hamad al-Sabah, resigned and was succeeded by Minister of State for National Assembly Affairs Badr Jassim al-Yaqoub, who retained his existing job.

First Ivory poll

Ivory Coast staged its first multi-party parliamentary election with the ruling party heading for a comfortable victory after an uninspired campaign. Page 2

Students wounded

At least three students were wounded in a gunbattle between rival groups at Dhaka University as divisions widened in an opposition-led campaign to oust Bangladesh President Ershad.

Singh rally bombed

A bomb exploded at a public meeting addressed by former Indian prime minister V.P. Singh, killing at least one person.

Soviet chaos warned

Soviet newspapers predicted severe shortages of meat, milk, potatoes and other basic goods this winter as crucial state distribution channels collapse into chaos.

Hostages freed

An Iraqi Airways flight carried 104 Germans who had been held hostage in Iraq to Frankfurt and freedom. Page 3

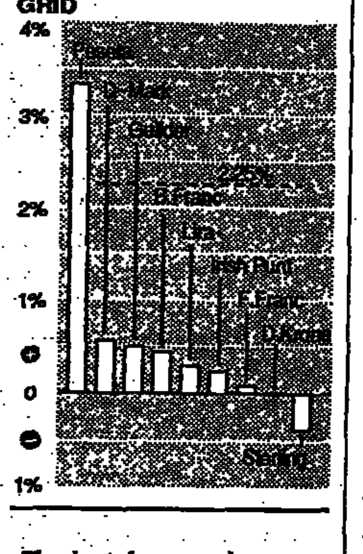
Business Summary

UK recession likely to be hard and long, says report

The UK recession will be deeper and longer than the government and financial analysts have forecast, according to a pessimistic forecast by the Confederation of British Industry (CBI), the employers' organisation. Page 20, Quarterly Forecast, Page 8

EUROPEAN Monetary System: A weakening of the D-Mark on Friday released the build-up of pressure in the ERM. Interest rate factors and speculation that Bundesbank wants to revalue the D-Mark had boosted the German currency. But hopes of a pro-European UK prime minister and stronger-than-expected French trade and GDP growth figures helped improve sterling and the franc.

EMS November 23, 1990



The chart shows member currencies of exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise by more than 2.25 per cent from the weakest currency in that part of system. Sterling and Spanish peseta operate within 6 per cent fluctuation bands. Currencies, Page 39

POLLY Peck International: Administrators expect to make breakthroughs which could reveal full picture behind group's rise in profits throughout the 1980s. Page 21

ANTI-dumping duties are to be imposed on a subsidiary of Monsanto, US chemicals multinational, over its fight for Europe's sweeteners market. Page 4

SAVAGE Group: Institutional shareholders have forced chairman and chief executive of the USM-quoted hardware supplier to quit. Page 21

CREDIT Lyonnais: Bid by state-owned French bank to raise stake in Woodchester Investments, Irish financial services company, would be against UK public interest. Page 21

CENTRAL Capital, core holding company for Canadaian financial services group, made a C$106m ($905m) writedown in the third quarter. Page 24

APPLE Computer, US personal computer company, is to announce joint venture with Silicon Valley chipmaker VLSI Technology and Acorn Computer, UK computer company, aimed at developing microprocessor. Page 22

ARGENTINA: President Carlos Menem has signed decree privatising Aerolineas Argentinas. Page 24

BUHRMANN-Tetterode, Dutch packaging and office supplies wholesaler, posted 21 per cent rise in net profit in first nine months of 1990. Page 24

STANDARD Chartered, international bank, is claiming $800m in damages against Price Waterhouse, one of world's leading accountancy firms. Page 22

Bush to seek UN backing for use of force against Iraq

By Peter Riddell, US Editor, in Washington

THE US will this week seek a United Nations Security Council resolution indirectly authorising the use of military action to force Iraq out of Kuwait.

Senior US officials have stepped up warnings that the Gulf crisis must be resolved before long. They have also claimed that Iraq could possess a crude nuclear device within a few months.

It remained unclear whether the UN resolution will contain an ultimatum setting a date for Iraq to withdraw, though President George Bush has talked of a possible "time frame" being included.

Mr James Baker, the US secretary of state, will seek the resolution when he chairs a meeting of the Security Council at foreign minister level, probably on Thursday.

Mr Brent Scowcroft, the president's national security adviser, said yesterday that no one is "eager to have this drawn out over an indefinite period with all the hazards. The international coalition is a disparate group with all sorts of tensions and pressures. There's a common feeling that it [the crisis] needs to be brought to an end."

Mr Douglas Hurd, the British foreign secretary, warned yesterday that approval of a UN resolution authorising the use of force would "lead us into a pretty tense period. I'm not sure that people in this country are fully up to speed on the importance of this".

A draft resolution was circulated over the weekend among the five permanent members of the council. The US has sought to avoid Soviet and other objections to a specific reference to the use of force by referring to "taking the necessary means to enforce the 10 UN resolutions" against Iraq, according to Mr Scowcroft. He said that covered the use of military force.

Even if the UN resolution is approved, Mr Bush still faces a difficult task of winning the backing of the US Congress for an attack on Iraq.

The administration clearly hopes to win public support by its warnings over Iraq's nuclear capabilities. Mr Scowcroft warned that if Iraq built even one bomb this "could make a significant difference for troops fighting in the region".

Seeking to counter those saying that sanctions should be allowed to run a year or two, Mr Scowcroft said there was "the possibility that we could face an Iraq armed with nuclear weapons which would dramatically change the character of any conflict".

Mr Dick Cheney, the US defence secretary, said estimates varied from a year or less – on a worst case – for Iraq to prepare a crude device capable of doing some damage, to between five and 10 years for having a deliverable weapon.

● **Lionel Barber adds:** Kuwait's government-in-exile is set today to present evidence of Iraqi atrocities to the UN in a fresh effort to win international support against the occupation of Kuwait.

The Kuwaitis intend to show photographs of mutilated resistance fighters and to describe the Iraqi army's torture of civilians, including the use of electric drills against suspected collaborators.

Kuwaiti diplomats also hope to encourage Kuwaiti refugees to appear before the Security Council to recount harrowing personal tales of violence and looting since the Iraqi invasion on August 2.

Gulf reports, Page 3; Bush charts steady course, Page 20

Major and Heseltine lead race to be UK premier

By Philip Stephens, Political Editor, in London

MR JOHN MAJOR and Mr Michael Heseltine emerged yesterday as the front runners to succeed Mrs Margaret Thatcher as UK prime minister as the race for the Conservative party leadership enters its final stages.

After a day of frantic campaigning and conflicting claims, however, supporters of Mr Douglas Hurd insisted that although he was trailing his rivals he still had enough support among Conservative Members of Parliaments to emerge as last-minute winner.

Despite signs that Mr Major, the chancellor of the exchequer, was edging in front of his rivals before the second ballot tomorrow, all three camps seemed resigned to the contest going to a third ballot on Thursday, when the second preference votes of the last-placed candidate will be crucial in deciding the eventual winner. To win outright tomorrow would require 187 votes, more than half the parliamentary party.

In separate interviews with the Financial Times, Mr Heseltine and Mr Hurd, the foreign secretary, underlined their claims to the leadership.

Mr Hurd argued that he was best placed to heal the divisions of the party and to meet the challenges confronting Britain in the Gulf and in the rest of Europe.

Mr Heseltine said he was offering a brand of Conservatism which respected and harnessed market forces but also returned to the traditions of "caring Conservatism".

Mr Major, who appeared to be edging in front of his rivals in the run up to tomorrow's second ballot, said yesterday that his campaign had retained the strong momentum that it had established on Friday. He added that more than 150 of the party's 372 MPs had now pledged him their support.

As Mr David Waddington, the home secretary, and Mr Tony Newton, the social services secretary, endorsed the chancellor's candidature, Mr Major was also claiming the support of a huge majority of local constituency associations.

The gentlemanly nature of

Continued on Page 20
Background, Pages 6 and 7; Anchorman steals the show, Page 20

Republics pour cold water on Gorbachev's new union treaty

By Leyla Boulton in Moscow

THE SOVIET UNION's most independent-minded republics are set to reject President Mikhail Gorbachev's proposed union treaty, but some fear Moscow may try to impose the plan by force.

Mr Vytautas Landsbergis, Lithuania's president, said there was nothing to stop Mr Gorbachev using newly acquired emergency powers to crush Lithuania's independence.

"He can put the army in charge and remove all the democratic institutions we have created," Mr Landsbergis said yesterday. "The west will still hand him the Nobel Peace Prize."

The three Baltic republics have spearheaded a campaign for full independence and have no plans to sign the treaty.

Shortly after producing a blueprint for a Union of Sovereign Soviet Republics, Mr Gorbachev said on Friday that all 15 republics would end up signing because the country could not afford to split.

Denying that republics would be forced to stay, he claimed that the majority of voters in even the Baltic republics did not want to leave the Soviet Union.

Mr Akaki Ossetiane, a deputy leader of the newly-elected Georgian parliament, said that Georgia, which wants independence after a transition period, would not sign the treaty.

"The president could not possibly have thought out his declaration properly because imposing conditions like this could have unforeseeable consequences not just for Georgia but for the rest of the country," he said.

Parliamentary elections in Georgia last month chased the communists from power and put radical pro-independence parties in their place.

Deputies from the Ukraine, the second largest republic, said on Friday that the Union treaty offered too little too late.

It is still not entirely clear why President Gorbachev chose to introduce the plan for a "voluntary" union with assurances that it would be approved by all republics.

The move could be, however, a tactical manoeuvre to counter pressure from conservatives that he take emergency action to hold the country together.

A senior Russian leader said yesterday that the draft proposal on Friday was unacceptable even to the Russian Federation, which does not want to leave the union.

"This union treaty is a very big coffin for all of us to lie in," said Mr Ruslan Jhasbulatov, who is President Boris Yeltsin's second-in-command. He claimed the treaty aimed to break up Russia by giving autonomous areas within it the possibility of joining the new union as equal partners.

Whatever happens, the treaty is not likely to be signed soon. This means that Mr Gorbachev's proposals for emergency measures to overhaul government are likely to become more permanent.

Bundesbank agrees with Bonn that Emu will be 'two-speed'

By David Marsh in Bonn

THE GERMAN government and the Bundesbank believe that accelerated moves towards European monetary union (Emu) make it increasingly likely that only a limited number of EC countries will be able to establish a single currency as planned later this decade.

A consensus has emerged among senior officials at the Bundesbank, the politically independent central bank, and at the finance and foreign ministries that Emu is likely to encompass in the first instance only a "hard core" of EC members. This would include Germany, the Benelux countries, Denmark and, probably, France.

The view, setting out the probability of a "two-speed Europe" in the monetary field, is highly controversial because it implies that the large higher-inflation countries – Italy, Spain and Britain – may be excluded from participating straight away in full Emu.

This politically explosive conclusion is not yet formal German policy and has not been accepted by Chancellor Helmut Kohl. He is reluctant to admit publicly that other European countries may have to be excluded from full Emu, which will be the subject of a full-scale government conference starting in Rome on December 14.

The view of the foreign ministry is significant because Mr Hans-Dietrich Genscher, the foreign minister, has been a prime advocate of proceeding quickly towards Emu.

The British government believes, like the Germans, that uniting all EC countries under a single currency over the next decade will not be possible. None the less, Britain, like most other member governments, badly wants to prevent an inner core of EC states moving ahead with currency union on their own, since this would greatly undermine general Community cohesion.

German officials believe that the "two-speed" Emu outcome looks increasingly likely as the result of agreement by EC leaders at their summit in Rome last month to move to an intermediary "phase two" of Emu on January 1, 1994. This is much more quickly than recommended by the Bundesbank and the Bonn finance ministry, which both wanted to avoid setting a date.

Solidarity leader Lech Walesa, accompanied by his wife Danuta, casts his vote in yesterday's presidential election

Walesa likely to win first round in Polish election

By Christopher Bobinski in Warsaw

AN EXIT poll conducted jointly by Polish Radio and Television and Infas, the west German polling organisation, last night gave Mr Lech Walesa, the Solidarity leader, 41 per cent of the vote in the country's presidential elections.

Mr Tadeusz Mazowiecki, the prime minister, and Mr Stanislaw Tyminkski, a Polish-Canadian businessman, were running neck and neck at 20.5 per cent.

It was the first time in Poland's history that people had been allowed to elect a president: one of the last nails to be hammered into the communists' ideological and political coffin.

The contest was between six candidates. Only three really mattered: Mr Walesa, Mr Mazowiecki, and Mr Tyminski, the contest's dark horse.

Mr Walesa, the favourite, voted in Gdansk. As he emerged from the polling booth, he told reporters: "I voted for the winner."

Mr Tadeusz Mazowiecki, bearing his customary tired, stooped stature, said after he had voted that he would not have stood if he had not thought victory was within his reach.

Mr Tyminski, who forcefully expressed his laissez-faire policies during the campaign, voted without public comment in the village of Pecice near Warsaw.

The current president is General Wojciech Jaruzelski, the former Communist Party leader who was elected by parliament in July last year and the man who imposed martial law on December 13, 1981, and banned the Solidarity trade union movement.

Strict election rules forbade the publication of exit polls. However it seems that the turnout, as predicted by the poll surveys, was low. No more than two-thirds of the 27.5m electorate voted.

To win, a candidate must obtain 50 per cent of the vote. Otherwise, a second ballot will be a run-off on December 9 between the two front runners. The winner will be elected by a simple majority.

Polls conducted at the end of last week indicated that Mr Walesa would finish ahead of the pack, but would fail to reach the magic 50 per cent.

The polls also showed Mr Tyminski's support crumbling in the final stages of the campaign as attacks against him by the other front runners took their toll.

This should leave Mr Mazowiecki and Mr Walesa facing each other in the run-off.

Mr Mazowiecki, who ran a lack-lustre campaign, can in the second round, rely on the support of more than one million voters who yesterday voted for Mr Wlodzimierz Cimoszewicz. He is backed by the SdRP, the Communist successor party.

However, the prime minister's support among the farmers, who represent almost 40 per cent of the electorate, is low. Their vote was split between Mr Walesa, Mr Tyminski and Mr Bartoszcze, the PSL farmer's party candidate.

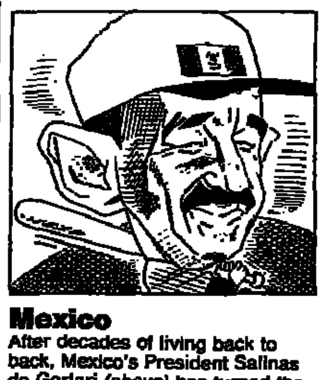
The powerful farmers lobby are likely to give their vote to Mr Walesa in the second round, which would secure him the the presidency.

CONTENTS

THE MONDAY INTERVIEW

After 31 years at the helm, Singapore's prime minister, Lee Kuan Yew (pictured left), steps aside this week, making way for a new generation of younger leaders. What will Mr Lee's legacy be? Page 44

FT SURVEYS THIS WEEK



Mexico
After decades of living back to back, Mexico's President Salinas de Gortari (above) has turned the country to face the US: benefits are expected to flow from playing ball.
(See pages 29-34)

■ **TODAY:**
Venture Capital: Now for the lean years. *(Separate section).*
Mexico: *see caption, left.*

■ **TUESDAY:**
Plymouth: Recession and the "peace dividend" signal heavy weather ahead for this naval city in England's far west.

■ **WEDNESDAY:**
Hertfordshire: the home of garden cities juggles opulence, green issues and skills shortages.

■ **THURSDAY:**
European Finance & Investment: Part 10: London: Continental competitors leave the City with fewer laurels to rest on.

■ **FRIDAY:**
Accountancy: Europe comes alive to one of the world's most portable qualifications.

Ivory Coast ruling party heading for victory

IVORY Coast staged its first multi-party parliamentary election yesterday with the ruling party heading for a comfortable victory after an uninspired campaign, Reuter reports from Abidjan.

The electorate, estimated at 4.7m, was choosing between 490 candidates for 175 national assembly seats. Opposition candidates were running against the ruling Democratic Party of the Ivory Coast (PDCI) for the first time since independence from France in 1960.

With at least 45 PDCI candidates returned unopposed in the single-round election, the party was in no danger of losing its grip on the assembly, diplomats said. President Felix Houphouet-Boigny, 85, grudgingly accepted multi-party politics last April after the pro-democracy movement threatened to topple his government. The wily pro-western president turned the tables slowly on left-wing opponents lacking political savvy as much as cash.

Africa's longest-serving leader was re-elected to a seventh five-year term last month, defeating Mr Laurent Gbagbo of the Ivorian Popular Front (FPI) by 4-1.

Mr Gbagbo said he was beaten because of massive fraud.

The FPI fielded most of the 214 candidates put up by 19 opposition parties on Sunday. Some parties are virtual one-man bands widely thought to have been sponsored by the PDCI as a spoiling tactic.

The four main opposition groups split the anti-PDCI vote in many constituencies by failing to run a sole candidate.

The speaker of parliament, Mr Henri Konan Bedie, was elected unopposed after his FPI challenger withdrew at the last minute.

FPI headquarters in Abidjan said army reinforcements were deployed early yesterday around Ouragahio where western diplomats were acting as unofficial observers.

There were clashes between PDCI and FPI supporters on Saturday night in the Yopougon district of Abidjan's, the scene of widespread violence in the presidential election.

US and Mexico see logic of commercial integration

Bush and Salinas hope today to make headway on a Free Trade Agreement, writes **Richard Johns**

SO FAR from God and so close to the United States, goes the saying attributed to the turn-of-the-century Mexican dictator President José Porfirio Diaz, whose "modernisation" policies opened the country to foreign investment, railway and mining concessions, and precipitated the 1910-17 Revolution.

Now the wheel has turned full circle. Mammon and geography continued to push the logic of commercial integration long before President Carlos Salinas de Gortari in February overcame historic resentments to initiate the dialogue which should lead to negotiations next year on a Free Trade Agreement (FTA) between Mexico and the US.

Mr Salinas and Mr Bush meet today for two days of talks in Monterrey and Agualeguas – Mr Salinas's hometown near the US border – to take the process further. Formal negotiations are expected to begin in June after congressional approval and the deal is hoped to be completed by 1992.

Despite Mexico's urgency to proceed, it was not until August that Mr Salinas was able formally to submit to President George Bush his request for negotiations – too late for the green light to be given before the mid-term election because the White House has to give 60 working days' notice.

It is understood the US administration wanted to wait until conclusion of the Uruguay Round negotiations under the General Agreement on Tariffs and Trade, in particular on the question of financial services, which will feature prominently in FTA negotiations with Mexico.

Even though Ottawa is said to have been informed of the initial contacts it was not until September 24 that Mr John Crosbie, Canada's minister of international trade, announced with some caution his government's intention "to participate in discussions" with a view to negotiations between Canada, the US and Mexico.

The Canadian government is

Canada is believed to be less than happy about the US-Mexican embrace

believed to be less than happy about the US-Mexican embrace.

Mr Jaime Serra Puche, minister of commerce and industry, said on November 16 that the Mexican government would know "within the next few weeks" whether the talks would start on a trilateral or bilateral basis.

As a result of its wholehearted commitment to the Gatt, Mexico's average import duty has been reduced to about 10 per cent. But Mr Serra stressed that a major reason for seeking an FTA was to overcome non-tariff barriers. Mexico believes, with much justification, that it has been more sinned-against than sinning in commercial dealings with the US.

Dismantling of tariff barriers – a process which will take a period of 10 years under the US-Canadian bilateral accord which came into force at the beginning of 1989 – will only expedite the process of what has been described as "silent" economic integration.

Much progress has already been made on a number of fronts under an expanded economic framework agreement signed last year. For instance, bilateral talks are taking place on easing trade restrictions on petrochemicals and agricultural products.

The Mexican government is, in particular, concerned about non-tariff barriers preventing exports of avocado pears on the grounds of fruit flies and boll weevils – which apparently do not worry consumers in Europe where Mexico outsells Israel in this product.

US statistics are a more reliable indicator of performance than Mexico's, in particular because they include the *maquiladora* or in-bond industry. According to them, two-way trade last year amounted to $52bn (£26.5bn) with the balance in Mexico's favour. Its exports were worth $27.18bn and its imports $24.96bn.

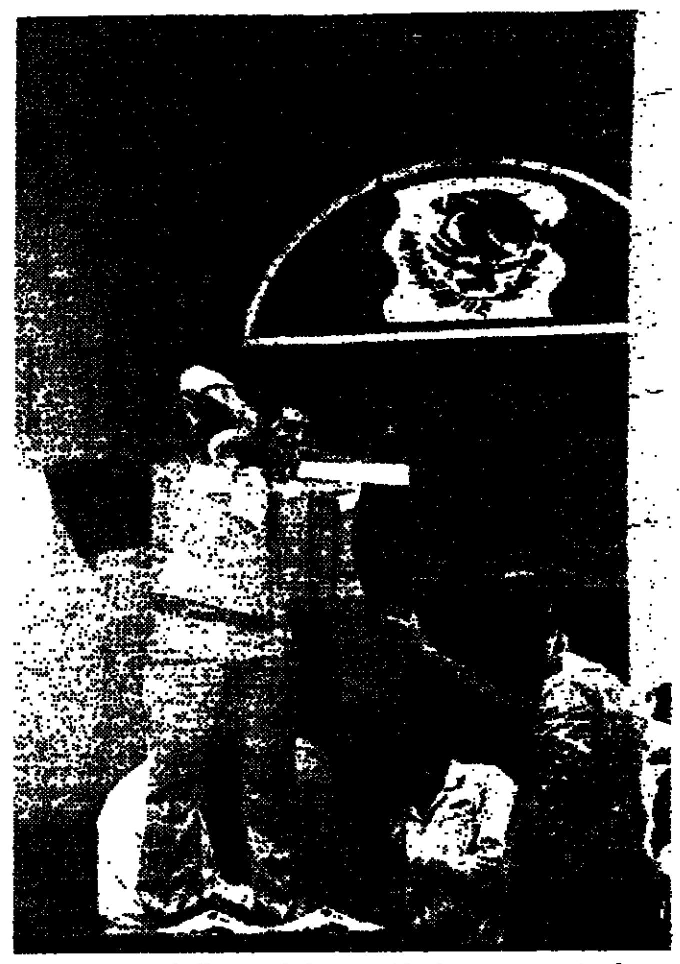
In the first half of 1990, Mexico maintained its supremacy with sales of $16.52bn, up 7.4 per cent on the same period of last year. But the gap narrowed with US exports to Mexico rising over the sixth-month period by 10.2 per cent to $13.64bn.

Mexico is also in surplus in its much smaller commercial exchanges with Canada. In the first half of this year Mexican exports were woth C$936.9m (£410.9m) compared with imports of C$341.9m. Mexico is Canada's most important trading partner in Latin America, now ahead of Brazil – but its investments are negligible compared with those of the US.

As far as the US is concerned, so far has integration gone, especially in the border area, that neutral observers wonder about the rationale of an FTA when progress towards bilateral accords on all fronts are proceeding.

For Mexico, US investment apart, the obvious advantage is the launching pad it will give foreign companies to penetrate the US market.

Mexico'sopening position today is that "commerce and only commerce" is negotiable but the US has other ideas. About 70 per cent of Mexico's shipments of crude oil and products go to the US rather than the 50 per cent traditionally regarded as the desirable limit. If the Gulf crisis is not resolved soon preferential access to Mexican oil and demands to help the capital-starved state-owned Petroleos Mexicanos in developing hydrocarbon reserves is bound to figure in the talks.



Workers secure bullet-proof glass outside the government palace in Monterrey where Bush and Salinas will address a rallytoday

Leading Sikhs held in Punjab crackdown

By K.K. Sharma in New Delhi

SCORES of Sikh political and religious leaders were arrested at the weekend in the north-west Indian state of Punjab to enforce a ban on a meeting called to bring unity to the divided community.

Although the crackdown was ordered by the state's governor, it is unclear whether he obtained approval from the Indian government, led by Mr Chandra Skekhar who took over as prime minister earlier this month.

Mr Skekhar has promised to tackle the Punjab issue but has not spelt out his plans. The arrests are certain to worsen the situation in the troubled state where militants are seeking an independent nation for Sikhs.

A statement from the Punjab government said the banned meeting was called to announce "a subversive programme of action to create disruption, disorder and a situation of confrontation with the government".

Among those arrested were Mr Simranjeet Singh Mann, president of the leading faction of the divided Akali Dal, the Sikhs' main political party, and Mr Prakash Singh Badal, a former chief minister of Punjab. Mr Mann resigned as a MP recently.

The arrests followed an escalation in Hindu-Sikh tension in the state. This has been accompanied by a marked rise in violence; more than 20 people a day, on average, have been killed over the past fortnight.

Reuter reports from Chandigarh: Armed Sikh extremists shot dead 13 people and wounded seven in Jullundur yesterday, police said.

Gunmen on motorcycles and scooters sprayed bullets indiscriminately at passers-by at three different places in the Punjab industrial town, they said.

It was not immediately clear if the killings were linked to the arrest of Sikh leaders.

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Brazilian state poll to test Collor

BRAZILIANS voted yesterday in a poll for 15 state governors which could underline the low political fortunes of President Fernando Collor de Mello, who is fighting an uphill battle against inflation, Reuter reports from São Paulo.

Mr Collor took office in March as Brazil's youngest president and promised to wipe out inflation in a year. But in November prices are expected to rise nearly 20 per cent for the month.

A recent survey said only 26 per cent of Brazilians viewed his government positively, compared with about 80 per cent shortly after he became president.

State governors in Brazil are important players on the political stage, with considerable patronage at their disposal.

Political analysts said the two elections to watch were in São Paulo, Brazil's industrial heartland, and the southern farming state of Parana. Mr Collor's followers are under threat in both states.

In São Paulo, the pro-Collor candidate Mr Paulo Maluf is trying to win after a string of electoral defeats, including two failed bids for the presidency.

His opponent is Mr Luiz Antonio Fleury Filho, protegé of outgoing São Paulo Governor Orestes Quercia who has his eye on the presidency in the 1994 poll and is a political foe of Mr Collor.

A victory for the Quercia camp would have the effect of politically overshadowing the Collor administration, according to political scientist Mr David Fleischer of Brasília university.

About 51m Brazilians, more than half of the electorate, will vote in 15 states where no candidate obtained an absolute majority in a first round vote on October 3.

In 11 states governors were elected outright in October and in Alagoas, Mr Collor's home state, allegations of electoral fraud have led to the postponement of voting.

Argentina and UK reach fishing accord

By John Barham in Buenos Aires

BRITAIN and Argentina have reached preliminary agreement on fishing rights in the south Atlantic, following negotiations in Madrid. Officials say details will be made public after formal approval by both governments later this week.

The Falklands remain a deeply emotional issue in Argentina, which still claims sovereignty despite its defeat in the 1982 conflict with Britain. The two countries resumed full diplomatic relations in July.

Diplomats from both sides have stressed that an accord must be in place by February, when the fishing season begins. Stocks of the ilex squid, the region's most valued species, have been seriously depleted by overfishing.

An agreement would make it possible to regulate fishing by third countries, particularly the Soviet Union, Spain and Asian nations, in waters claimed by Argentina and the Falkland Islands.

Previous talks failed to advance because the British doubted Argentina's ability to patrol its waters adequately, while the Argentines insisted on joint operations in the disputed waters.

Mandela seeks united front over white rule

MR Nelson Mandela, deputy president of the African National Congress, yesterday appealed to South Africa's rival black political factions to come together to form a united front against white rule, Reuter reports from Johannesburg.

The appeal follows an announcement by the ANC's main rival, the hardline Pan Africanist Congress, on Saturday that it favoured a joint approach with the ANC to President F.W. de Klerk's reform programme.

The PAC, which previously rejected talks on power-sharing with the De Klerk government, said its national conference next month would decide whether to join the ANC in a united front.

Speaking at a rally at Tembisa township outside Johannesburg, Mr Mandela said he hoped concrete steps could soon be taken to make anti-apartheid unity a reality.

"We have approached all the political organisations without exception and have invited them to sit down with us to discuss unity," Mandela told the rally.

"We will stress that the task of mobilising the country around the question of peace and mobilising black and white is a very difficult one which

Nelson Mandela: making an appeal to rival factions

requires us to speak with one voice."

A tentative step towards black unity will be made on Thursday at a meeting in Cape Town called by Anglican Archbishop Desmond Tutu. All anti-apartheid groups have been invited.

The talks will try to hammer out a truce between the rival political factions waging bloody warfare in Johannesburg's townships since August.

Main antagonists in the conflict, which has cost about 850 lives, are the ANC and the Inkatha Freedom Party led by Zulu chief, Mangosuthu Buthelezi.

LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re
THE DREXEL BURNHAM LAMBERT GROUP INC., ET AL.,
Debtors.

Chapter 11 Case No: 90 B 10421 (HCB)

NOTICE TO CUSTOMERS OF DREXEL BURNHAM LAMBERT INCORPORATED: COMMENCEMENT OF REORGANIZATION CASE

NOTICE IS HEREBY GIVEN that on May 29, 1990, Drexel Burnham Lambert Incorporated ("Drexel") filed with this Court a voluntary petition for relief under chapter 11, title 11 of the United States Code (the "Bankruptcy Code").

PROCEDURES FOR FILING CUSTOMER CLAIMS

NOTICE IS HEREBY GIVEN that pursuant to an Order of the Court dated August 29, 1990, the Court has prescribed procedures for the filing of claims by Customers (as hereinafter defined) against Drexel in the above-captioned chapter 11 case with respect to those funds and securities that Drexel holds or may receive for the account of its former customers which would constitute "customer name securities" or "customer property" under section 741 of the Bankruptcy Code or 15 U.S.C. § 78111 and which are segregated by Drexel pursuant to an Order of the Court dated May 29, 1990 (the "Segregated Property"). The Segregated Property generally consists of securities, dividends, interest payments and uncashed checks relating to proceeds of sales of securities, dividends or interest payments, which, in each case, were or should have been credited to a customer's accounts. IF YOU DO NOT FILE YOUR CLAIM IN THE MANNER PRESCRIBED, YOUR CUSTOMER CLAIM WILL BE FOREVER BARRED AND YOU WILL NOT BE ENTITLED TO ANY DISTRIBUTION ON THAT CLAIM.

Customers of Drexel who wish to file a claim are required to file their claims with Drexel either (a) by mailing claims to:

Drexel Customer Claims
c/o The United States Bankruptcy Court
for the Southern District of New York
Bowling Green Station
P.O. Box 64
New York, New York 10274

or (b) by delivering the same to the Clerk, U.S. Bankruptcy Court by hand delivery or courier service (but not by U.S. mail) to:

Clerk, U.S. Bankruptcy Court
Room 614
Old Custom House
One Bowling Green
New York, New York 10004

CUSTOMER CLAIMS WILL BE DEEMED FILED ONLY WHEN RECEIVED AT THE ABOVE ADDRESS.

Customer proofs of claim shall conform substantially to the form of claims approved by the Court. Such forms for the filing of Customers' claims are being mailed to certain former Customers of Drexel as their names and addresses appear on Drexel's books and records. Former Customers who do not receive such forms who believe that they have claims against or to the Segregated Property may obtain them by writing to Drexel at the following address.

Drexel Burnham Lambert Incorporated
60 Broad Street
New York, New York 10004-2367
Attn: Customer Service Dept. – 15th Floor

The meaning of the term "Customer" is governed by section 741(2) of the Bankruptcy Code. It is limited to persons who have claims against or to the Segregated Property and includes any person who has a claim on account of securities received, acquired or held by Drexel in the ordinary course of its business as a broker-dealer. This includes any person who has a claim against Drexel for securities or monies with respect to dividends or for bond interest and the person did not maintain a customer account with Drexel. The term "Customer" includes any person who has a claim against Drexel arising out of sales or conversions of such securities, and any person who has deposited cash with Drexel for the purpose of purchasing securities, *but does not include:*

a) any person to the extent that the claim of such person arises out of transactions with a foreign subsidiary of Drexel; or

b) any person to the extent that such person has a claim for cash or securities which by contract, agreement, or understanding, or by operation of law, is part of the capital of Drexel, or is subordinated to the claims of any or all creditors of Drexel.

The provisions of the Bankruptcy Code shall control if there is any inconsistency or difference between the foregoing and the definition of "Customer" as set forth in the Bankruptcy Code.

The date by which Customer claims must be filed has not been determined. Notice will be given of that date once it has been fixed by the Court. Nevertheless, since customer claims will be processed as and when received, customers are urged to file claims as promptly as possible.

OTHER CREDITOR CLAIMS

ALTHOUGH NO BAR DATE HAS AS YET BEEN FIXED WITH RESPECT TO CUSTOMER CLAIMS, NOVEMBER 15, 1990 HAS BEEN FIXED AS THE BAR DATE FOR FILING PROOF OF CLAIMS FOR ALL OTHER CREDITORS OF DREXEL AND FOR FORMER CUSTOMERS WHO DO NOT HAVE CLAIMS TO OR AGAINST THE SEGREGATED PROPERTY.

Dated: New York, New York
August 29, 1990

BY ORDER OF THE COURT
HONORABLE HOWARD C. BUSCHMAN, III.
UNITED STATES BANKRUPTCY JUDGE
UNITED STATES BANKRUPTCY COURT
Southern District of New York
Old Custom House
One Bowling Green
New York, New York 10004

WEIL, GOTSHAL & MANGES
Attorneys for The Drexel Burnham Lambert Group, et al.
Debtors-in-Possession
767 Fifth Avenue
New York, New York 10153
(212) 310-8000

Romances blossom as Desert Rats dig in

LANCE CORPORAL Michael Oliver, 21, from Darlington in the north of England, who is with the UK's Seventh Armoured Brigade, the so-called Desert Rats, said with a note of resignation: "When we heard the announcement, we realised that the war was probably going to happen, and that we'd be here for it."

Like so many of the 11,000 British soldiers who arrived in Saudi Arabia in October, Lance Corporal Oliver had been counting on the Fourth Armoured Brigade to take over their duties next spring, writes Lare Marlowe.

Mr Tom King, UK defence secretary, announced last Thursday that the Fourth would come to the kingdom after Christmas, raising British troop strength to 25,000.

"Now we know we're here for the duration," Lance Cpl Oliver said. "Half the British Army of the Rhine will be here and there's no one else in the army who does what we do."

The Lance Corporal is a Royal Corps of Transport driver – a "trog" in army jargon. And when the 14,000 men of the Fourth Armoured Brigade arrive, he and his eight-ton Bedford truck will move north to ferry rations, water, fuel and ammunition to front-line troops.

If the allies launch an offensive against Iraqi troops in Kuwait, Lance Corporal Oliver knows he may be carrying prisoners of war or British casualties in his truck on return trips south. Lance Corporal Oliver has already practised this role, transporting British soldiers playing Iraqi prisoners of war, and knows that body bags are stored at his squadron headquarters.

The 4th armoured brigade is heavy in infantry and artillery which would be needed for a military offensive. Combining the 4th and 7th brigades under divisional command in Saudi Arabia will add 43 challenger main battle tanks, 90 warrior armoured light fighting vehicles, two batteries of multiple launch rocket systems, Rapier surface-to-air missile launchers, 36 helicopters,and 40 M109 self-propelled 155mm artillery pieces to the British forces' capability.

The 7th armoured brigade already has 114 challenger tanks.

Captain Gerry Briggs, the technical quartermaster, greeted the scheduled doubling of British troops in Saudi Arabia with relief. "Because I am a quartermaster I always worry about the money," he said.

"If the government can afford to put in another brigade and establish divisional headquarters here, it means the stops are out. Up until now, stores have been very hard to come by."

Mrs Margaret Thatcher's resignation and the Conservative party leadership contest have not affected Operation Granby, the British deployment in Saudi Arabia, but some of the soldiers voice uncertainty about the government's determination.

"Most people agreed that Mrs Thatcher should have fought on," said Corporal Jake Malcolm, 28, from Leeds, northern England. "Will the next guy have Maggie's resolve?"

The troops harbour a certain nostalgia for their long stay in Germany. Many speak German rather than Arabic, and left German wives or girlfriends behind.

"Germany was a nice place," an enlisted man said, sipping tea from a mug as the sun rose over his unit's dew-soaked desert encampment at five in the morning.

"But they didn't really want us there any more, now that they've got reunification." British troops lead a more spartan existence than their US counterparts in Saudi Arabia. Shower and toilet facilities are rudimentary and the British private who earns a minimum of £157 ($307) per week must provide his own soap, shaving cream and toothpaste.

US marines could not cope with the influx of mail from American women seeking soldier pen-pals in Saudi Arabia, so they asked members of the Seventh Armoured Brigade to reply to some of their letters – an offer which has apparently resulted in some sudden Anglo-American romances.

Many British soldiers have also swapped their inferior camp beds (which sink into the sand) for more sturdy american models.

A few "Desert Rat" t-shirts were part of the bargain.

Syria and Britain may renew ties

SYRIA and Britain have discussed possible resumption of full diplomatic ties, broken off in 1986 after London accused Damascus of involvement in an attempt to blow up an airliner, Reuter reports from Damascus.

Syrian officials said Mr Farouq al-Shara, the foreign minister, and Mr David Gore-Booth, British Foreign Office under-secretary for the Middle East, had held talks in Damascus at the weekend. They said the meeting was the highest level at which a resumption of ties had been discussed.

German hostages fly to freedom

An Iraqi Airways flight carried 104 German hostages to freedom from Baghdad yesterday, Reuter reports from Baghdad.

Benn optimistic over Baghdad visit

Mr Tony Benn, the British Labour MP, flew to Iraq yesterday, optimistic that his visit would aid the Gulf peace process, PA reports.

He expects to meet President Saddam Hussein, but no date has yet been fixed.

Mr Benn said: "I want to explore the possibilities of a peaceful settlement."

Pakistan to boost troop level

Pakistan is to boost its commitment to the US-dominated multinational force in the Gulf by sending an unspecified number troops to the United Arab Emirates, Reuter reports from Dubai. Pakistan already has 5,000 soldiers in Saudi Arabia.

Iraqis air their political thoughts but keep them quiet

Lamis Andoni on a debate conducted in whispers

THE WEST may be over-optimistic in hoping that economic and military pressures will create an internal upheaval in Iraq to overthrow President Saddam Hussein, but there are signs that the Gulf crisis has intensified political debate among Iraqis.

This debate is inevitably conducted in whispers in Iraq's closely-controlled society.

The government went out of its way to deny reports at the weekend that eight schoolgirls had been killed in revenge for the death of Kuwaiti children in the Iraqi invasion. Iraq did admit, however, that "vagrant teenagers" had been arrested for causing "horror" in primary schools.

Iraqis have long been accustomed to keeping their political thoughts to themselves for fear of being denounced by informers, but economic austerity and the prospects of another war have prompted intellectuals to argue that the crisis should not justify repression.

"We are always expected to sacrifice political freedoms to confront an outside enemy," said one Iraqi novelist. "I just disagreed with the prevailing official view that political freedoms and national security are incompatible."

Even in the upper echelons of the Ba'ath party there are voices which argue that democracy does not contradict Ba'athist ideology.

"The dangers threatening the Arab world – crucial as they are – do not justify the sacrifice of democratic practices," said Dr Elias Farah, a Syrian-born member of the party leadership.

In an interview in Baghdad, the Swiss-educated Dr Farah defended the principle of democracy in the Arab world in general but avoided any specific reference to Iraq.

President Saddam is often compared by Iraqi intellectuals to Gamal Abdul Nasser, the late Egyptian president; but it is not only the positive comparisons which emerge.

"In the late 1950s and early 1960s we demonstrated in support of Nasser in this very place," said one Iraqi artist in Baghdad. "We were proud of Nasser's challenge to the west but we were oblivious to repression in Egypt."

A range of Iraqis from Baghdad taxi-drivers to provincial shopkeepers talked about the issue of political freedom. Some were openly critical of the lack of liberty in Iraq and expressed curiosity about Jordan's recent moves towards parliamentary democracy.

Whereas some non-Iraqi Arabs, particularly Palestinians, have tended to give unconditional support to Mr Saddam, Iraqis themselves are sometimes critical of the personality cult which has developed around their president.

In Baghdad, however, even those who criticise the Iraqi authorities are cynical about American intentions. "The US claim that it has sent troops to defend democracy is a joke," said the novelist.

"They were more than ready to support Saddam when he seemed to be leaning towards the west, regardless of his repressive tactics, while tyranny in Saudi Arabia does not disturb Washington."

A member of the Lebanese Forces, the country's strongest private army, inspects ammunition as a 65-vehicle convoy packed with men, weapons and shells continued the Christian militia withdrawal from Beirut yesterday. The departures are a key provision in an Arab-brokered peace pact giving Moslems more say in the Christian-dominated political system

Bank criticises Israeli budget plan

By Hugh Carnegy in Jerusalem

MR YITZHAK MODA'I, Israel's finance minister, yesterday presented government ministers with a 1991 budget plan designed to cope with the huge cost of absorbing a flood of Soviet Jewish immigrants. However, it was criticised by the Bank of Israel.

With spending on immigration set to exceed the customary hefty defence expenditure for the first time, the Finance Ministry projected a deficit of Shk12.6bn (£3.2bn) unless ministers could agree a tough mixture of spending cuts and indirect tax increases to reduce the figure to Shk9.5bn.

Even if this lower figure were achieved through the course of cabinet and subsequent parliamentary debates, it is likely to exceed an upper limit for the deficit set by the central bank of 5.5 per cent of gross national product.

Mr Yitzhak Shamir, the prime minister, ordered the Finance and Defence ministries to resolve their differences over defence allocations. Mr Moda'i envisages limiting defence spending to Shk12.2bn out of total spending of Shk75.7bn. But Mr Moshe Arens, the defence minister, is demanding a Shk1.5bn increase to cover extra costs generated by the Gulf crisis.

Prof Michael Bruno, the governor of the Bank of Israel, said the budget was based on an anticipated 300,000 immigrants in 1991, when the real figure was more likely to be 400,000.

He also criticised the size of the deficit and called for more cuts and a rigorous multi-year budget plan. The central bank is anxious that the rapid surge of immigration should not lead to bloated borrowing requirements and a loss of control over inflation, already close to an annual rate of 20 per cent. Prof Bruno objected to a proposal by the Finance Ministry to fund the deficit in part by using Shk1.5bn shown as a reserve deposit on the bank's books but believed, in effect, to have already been spent.

High level of regional tension leaves 10 dead

By Hugh Carnegy

AT LEAST 10 people – six Arabs and four Israelis – were killed in three separate weekend incidents in Lebanon and on the Israeli-Egyptian border. The incidents, although unrelated, indicate the high level of tension in the region.

Three Israeli soldiers and a bus driver were shot dead yesterday and more than 20 Israelis injured near the Red Sea port of Eilat by a gunman who apparently crossed from Egypt.

Later a 19-year-old Arab woman from the Syrian National Social party in Lebanon blew herself up in a suicide bomb attack on Israeli soldiers in south Lebanon's Israeli-occupied "security zone". Her group claimed several Israelis died, but authorities in Jerusalem denied this, saying two men were wounded.

On Saturday an Israeli gunboat attacked a boat carrying five Arab guerrillas off the Lebanese coast, killing all five.

WORLD ECONOMIC INDICATORS

TRADE STATISTICS

		Oct.'90	Sept.'90	Aug.'90	Oct.'89
UK (£bn)	exports	8.762	8.775	8.539	8.142
	imports	9.841	9.588	9.739	9.827
	balance	-1.079	-0.813	-1.200	-1.685
France (FFrbn)	exports	102.442	93.980	98.365	95.868
	imports	108.307	104.603	104.179	104.475
	balance	-5.865	-10.623	-5.814	-8.607
		Sept.'90	Aug.'90	July.'90	Sept.'89
US ($bn)	exports	31.840	32.549	32.125	30.129
	imports	41.254	42.283	41.244	38.897
	balance	-9.414	-9.734	-9.119	-8.768
W. Germany (DMbn)	exports	51.60	55.20	54.20	54.00
	imports	47.10	47.90	45.90	42.60
	balance	+4.50	+7.30	+8.30	+11.40
Japan (US$bn)	exports	24.273	23.458	22.726	22.552
	imports	18.600	17.446	17.811	16.441
	balance	+5.673	+6.012	+4.915	+6.111

NutraSweet faces stiff EC anti-dumping duties

By Tim Dickson in Brussels

STIFF anti-dumping duties are to be imposed on a subsidiary of Monsanto, the US chemicals multinational, over its fight for Europe's sweeteners market.

The announcement expected soon from the Commission in Brussels is likely to fuel new criticism of the European Community's anti-dumping rules and further heighten transatlantic trade tensions at a sensitive time.

The exact timing of the Brussels announcement is not certain, but, according to someone closely involved in the case, the necessary procedures may not be completed until next week when the four-year talks under the General Agreement on Tariffs and Trade culminate with a four-day summit in Brussels. "I don't think this is going to be very helpful in improving EC-US relations," he said.

Full details of the decision are being kept under close wraps but it is understood that the US company NutraSweet, part of Monsanto's G.D.Searle division, may be forced to double its import price as a consequence of having to pay the provisional duties of roughly Ecu27 (£19) per kilo.

NutraSweet is the world's leading producer of aspartame and exports roughly $75m worth per year of the low calorie sweetener to the EC (where it had almost 80 per cent of the market in 1989). Critics say NutraSweet has gone to considerable lengths to drive out of business the only Community producer, the Holland Sweetener Company, which lodged the anti-dumping complaint both against the US company and against Ajinomoto of Japan earlier this year.

NutraSweet does not deny that dumping as defined by the EC is taking place, nor that the Community's producer is in difficulty – both necessary conditions for Brussels action. But the US exporter claims that the main reason for its higher price in the US is the fact that its patent protection there has not yet expired.

It argues, moreover, that its Dutch competitor has taken a "free ride" on the back of somebody else's attempt to build up the market and that troubles stem from its own unrealistic pricing.

The Holland Sweetener Company, by contrast, has pointed out to the Commission that it had no choice but to match prices which it claims were below the cost of production, yet that, unlike its rival, it had no chance to offset the resulting losses against profits on the American market.

Thumbs up in Sofia for Bulgaria's former Communists who now call themselves Socialists instead.

Bulgarian economic reform bid set to fail

By Judy Dempsey, recently in Sofia

ATTEMPTS by the Bulgarian government to implement a package of economic reforms are likely to fail following a decision by the opposition Union of Democratic Forces (UDF) to withdraw completely from parliament, and a call by Podkrepa, the independent trade union movement, for a nationwide strike from today.

The UDF walked out of parliament on Friday after Mr Andrei Lukanov, the Socialist prime minister, managed to win support for next year's budget.

But the 500,000-strong Podkrepa is determined to force Mr Lukanov to resign because as Mr Konstantin Trenchev, its leader, puts it: "He is part of the old (Communist) system." Yesterday, BTA, the Bulgarian news agency, said the strike was illegal because it was political in its motive.

Mr Lukanov, who has already survived two arson attacks on his home and a smear campaign in the opposition press, said he would resign if he did not win backing for his budget which includes a sharp cut in government subsidies.

After scuffles last Thursday in parliament, which at times resembled an unruly classroom, the UDF the following day voted against the budget even though Mr Lukanov had amended the budget to meet all its criticism.

"I am surprised that people who criticised us a few days ago (for the budget proposals), now criticise us for all the recommendations which they wanted in the first place," said Mr Lukanov.

He accused the UDF, whose leader, Mr Petar Beron, is desperately seeking to topple the BSP from power, of using "undemocratic and immoral means." The BSP won a comfortable majority in last June's elections. Since then, the UDF, still nursing its defeat, has refused to support the government in any of its economic reforms and has refused to join a coalition of national consensus.

The UDF now says that the BSP, because of its Communist past, has not the moral credibility to run the government or win support to implement reforms. "Opinion polls give the UDF 60 per cent of the vote, and only 25 per cent for the BSP," Mr Beron said in a recent interview. He added that the UDF should take over the interior, foreign and economy ministries, and said it was "the will of the people" that he become prime minister.

Mr Lukanov accused the UDF of wasting time and of being responsible for the deterioration of the economy. The UDF, he said, "will be responsible for the international community turning their back on Bulgaria."

The government is hoping to receive assistance from the International Monetary Fund as part of a stabilisation package.

Brussels aims to fill gaps in Europe's infrastructure

David Buchan previews a report which will try to draw EC and national programmes closer together

IMAGINE the European Community's internal market as a living organism. It has a circulation system (transport), a nervous system (telecommunications), a muscular system (energy) and a brain (training). For the whole to grow and prosper, all systems need to be in working order.

Clearly they are not. Businessmen all over Europe complain of waiting for aircraft to take off into Europe's congested airspace, of a failure by national telecommunications authorities to make their data transmission services inter-operable, and of competitors who benefit from cheap energy.

But the sorry state of Europe's infrastructure is at last receiving some high-level attention in Brussels, where the Commission is due to present a report early next month on what it calls trans-European networks (TEN).

The Community has long funded infrastructure projects. It provided Ecu20bn (about £14bn) from the regional fund between 1975 and 1988, and Ecu6.7bn in loans from the European Investment Bank since 1985. Nearly Ecu900m has been allotted in the 1990-94 EC research programme to promote research into data transmission and increased mobility of scientists.

However, this money has only gone some way to meet growing demand for national infrastructure spending, particularly on transport, or to ensure that funds are directed to Europe-wide, as distinct from purely national, projects.

So the Commission's industry directorate, which is preparing next month's paper, is focusing more on identifying the missing links in Europe's infrastructure.

Brussels is not, for the moment at least, proposing any far-reaching new EC legislation or a big increase in its budget. It aims, rather, to co-ordinate more closely EC and national programmes and to get governments to pull together in promoting European standards.

The TEN concept has attracted a wide constituency, precisely because it means many things to many people. For France, which set the Commission working on the idea a year ago, it is a way of opening up the Community market to its high-speed trains, its cheap nuclear-generated electricity and its ambitious plans in broad-band telecommunications.

To some in industry, TEN is a lever to get governments to spend more on infrastructure, though the big European companies represented in the European Round Table (ERT) say they are primarily interested in achieving a rational system of user charges to finance infrastructure.

To Mr Jacques Delors, the Commission president, it seems a way of fobbing off demands by poorer peripheral states for greater transfers of money in the context of economic and monetary union. In the UK, though, there are suspicions that parts of the Commission just want to aggrandise their empire.

Even enthusiasts of TEN acknowledge that it faces many difficult hurdles. Start with transport, where problems are clearly visible to the general public but where governments show little appetite for Community action.

Flight delays have a lot to do with Europe's 42 air traffic control centres, operating with 22 generally incompatible systems. Though the European Civil Aviation Conference has agreed a plan to integrate these systems over the next 10 years, it may not be enough to meet the existing 10 per cent annual growth in air traffic.

Liberalisation of road transport should help improve use of capacity by phasing out quotas and restrictions on cabotage, to allow trucks from one EC state to pick up cargoes freely in another. Fewer trucks would have to travel empty on their return journeys. But investment in road infrastructure continues to grow by less than 1 per cent a year, half the annual growth in traffic.

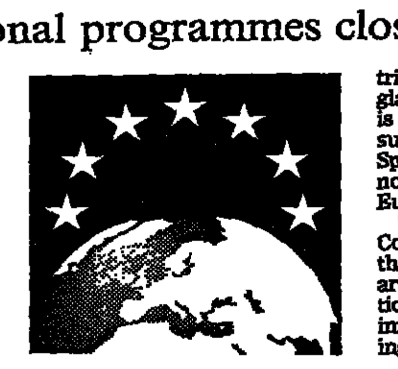
Environmental concerns should give rail transport a boost, but it still accounts for only about 10 per cent of all goods traffic. Carrying goods by canal and river confers the same environmental benefits, but there are poor connections between the main French inland waterways and the network centred on Germany and the Benelux countries.

By contrast, opening up national telecommunications monopolies to competition, could threaten some infrastructure spending.

In the past, the telecommunications authorities (PTTs) have deliberately overcharged business in order to subsidise residential subscriber services. But, these days, international companies are demanding that they pay tariffs related more closely to costs and are seeking greater freedom to operate their own networks.

It is, as a recent Commission report puts it, "no longer possible to force traditional telecommunications operators (PTTs) to carry out investments that are not commercially viable".

That gap is too big to be filled by EC money. None the less, Mr Maria Filippo Pandolfi, the research commissioner, has come up with his own Ecu200m (£141m) "European Nervous System" project, designed to solve the problem of differing telecommunications standards by using "open" systems to connect incompatible equipment.



THE EUROPEAN MARKET

The pressure behind this scheme, say its critics, is from European information technology companies which want to use the money Mr Pandolfi is offering for demonstration projects, to impress on their governments that their proprietary open systems technology is as good as that of IBM, their biggest and toughest competitor. However, the money is not enough to fund the demonstration projects, while more than is needed simply to develop common standards.

The funds might be better spent on other projects, such as linking up the customs, tax, veterinary, even police services of the 12 EC states, so that the Community can be sure of carrying out its plan to abolish internal border controls by the end of 1992.

In energy, recent EC moves to force operators of transmission systems to carry each others' products ought to produce a more rational European distribution network. But many glaring gaps remain. Portugal is not linked to any natural gas supply and three countries, Spain, Britain and Ireland, are not connected to the main European gas network.

The most persuasive case for Community action is made by the ERT industrialists. They argue that it is not just a question of filling in the missing infrastructure links, but of taking an EC-wide perspective.

A recent study, citing the French high-speed train, asks whether an integrated system will permit non-stop travel between European cities such as Paris and Milan, or only a slower service stopping at Turin and Lyons on the way.

To provide a high-speed, non-stop connection between distant European cities, special "local" tracks might have to be built to bypass cities where no stop was foreseen, it says.

The investment might not be justified – and the project might not even be considered – if the problem were looked at only from a national viewpoint, says the ERT.

Just as the EC has a role in raising governments' consciousness about infrastructure problems, the ERT suggests that business's role is paying user charges. But to do this willingly, businesses would have to be sure they were being charged fair prices for the services received, and that the revenue was ploughed back directly into investment.

The prospect of involving private finance could appeal to a number of EC governments which are finding it increasingly difficult to fund infrastructure programmes.

But whether governments would be willing or able to fulfil their side of the bargain by reforming tariff structures for public services, which have often been determined more by social policy objectives than by economic logic, is quite another question.

Polls test for Civic Forum

By Judy Dempsey, East Europe Correspondent

CIVIC FORUM, the movement which toppled Czechoslovakia's Communists from power a year ago, will have its popularity and influence tested over the next few days when local government results are declared.

The polls, the country's first such elections for more than 50 years, opened on Friday in Slovakia and on Saturday in Bohemia and Moravia. They will sweep away the last vestiges of Communist rule.

Under the terms of the electoral law, the district national committees, which were under the direct control of the state administration, will be replaced by district bureaux with the power to raise local taxes, and with responsibility for the maintenance of roads, schools, utilities and health care facilities.

Civic Forum, whose spiritual head is President Vaclav Havel, is expected to do well in Bohemia. However, it will be under strong pressure from the Movement for Self-governing Democracy and the Society for Moravia and Silesia.

The two groups, which won 16 seats of the 300 bicameral federal assembly in last May's elections, want greater autonomy from Prague, the federal capital and capital of Bohemia.

In Slovakia, attention will be focused on Public Against Violence, sister party of Civic Forum, and the Christian Democratic Movement, led by Mr Jan Carnogursky.

They are likely to come under pressure from the Slovak National Party (which won 15 seats in the federal assembly), a far right-wing nationalist party, led by Mr Vitazoslav Moric. It has campaigned on a platform calling for Slovakia's independence from Prague.

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	NatWestminster	14
Adam & Company	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
Allied Trust Bank	14	Dunbar Bank PLC	14	Nykredit Mortgage Bank	14½
AIB Bank	14	Duncan Lawrie	14	Provincial Bank PLC	15
● Henry Ansbacher	14	Equatorial Bank plc	14	Roxburghe Bank Ltd	14½
Associates Cap Corp	15½	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
● B & C Merchant Bank	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank of Baroda	14	First National Bank Plc	16	● Smith & Williamson Secs	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co	14	Standard Chartered	14
Bank Credit & Comm	14	Robert Fraser & Ptnrs	14½	TSB	14
Bank of Cyprus	14	Girobank	14	Unibank plc	14
Bank of Ireland	14	● Guinness Mahon	14	● United Bk of Kuwait	14
Bank of India	14	HFC Bank plc	14	United Mizrahi Bank	14
Bank of Scotland	14	● Hambros Bank	14	Unity Trust Bank Plc	14
Banque Belge Ltd	14	Hampshire Trust Plc	14½	Western Trust	14
Barclays Bank	14	Heritable & Gen Inv Bk	14	Westpac Bank Corp	14
Benchmark Bank	14	● Hill Samuel	14	Whiteaway Laidlaw	14
Brit Bk of Mid East	14	C. Hoare & Co	14	Yorkshire Bank	14
● Brown Shipley	14	Hongkong & Shangh	14		
CL Bank Nederland	14	● Leopold Joseph & Sons	14		
● Charterhouse Bank	14	Lloyds Bank	14		
Citibank NA	14	Meghraj Bank Ltd	14		
City Merchants Bank	14	McDonnell Douglas Bk	14		
Clydesdale Bank	14	Midland Bank	14		
Comm.Bk.of London Plc	14	Mount Banking	14		
Co-operative Bank	*14	Nat Bk. of Kuwait	15		

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Italians display good dress sense in overseas markets

Sari Gilber reviews the expanding fashion industry

WHEN top international models hit the Milan catwalks earlier this month, they were enjoying a northern Italian October for the last time. A decision to move up the Italian Spring-Summer and Fall-Winter women's collections to early September and February (from October and March) is part of a new marketing strategy designed to help Italy maintain its position as a world leader in new foreign markets as well as those traditional.

The models, as usual, were smiling. But the people who really have something to grin about are Italy's top stylists and manufacturers – Armani, Versace, Krizia, Ferr, Benetton, GFT, Maxmara, Genny, Fila, Ellesse, La Perla and Cerrutti, among others.

Despite currency and cost problems, Italy's clothing, knitwear and textile exports still constitute a major foreign currency earner. And with home consumption flagging, successful expansion into new markets is viewed as particularly encouraging.

"At the moment our future lies with export markets", says Fabio Inghirami, a leading producer of men's shirts and clothing who is currently president of EFIMA, the Milan-based Agency for Italian fashion and clothing fairs. Mr Inghirami, who also heads EMI, the Italian Fashion Agency, says that while the internal Italian market is largely saturated, export markets are extremely dynamic. Increasingly, he says, new customers – Japan, Greece, Spain, Hong Kong and Canada – are taking their place alongside the country's traditional clients in West Germany, France, US and the UK.

Last year exports of "Made-in-Italy" clothing and textiles increased by more than 10 per cent to total LIt23,700bn ($21.37m) with the net foreign trade sur plus (after imports) rising by eight per cent to LIt13,500bn. Exports of clothing and knitwear alone rose 10 per cent to LIt13,353bn (with a trade surplus of LIt10,289bn). And according to the latest statistics, in the first six months of 1990 exports rose an additional 11.4 per cent.

Although imports of clothing have also risen notably, the overall value of exports was four to six times larger.

Most important, in the view of most fashion operators, is that sales to Japan and several other "new" markets have been skyrocketing. This is due partly to changes in consumption and taste and increases in disposable income in countries such as Japan, Singapore, Greece, Spain and even Canada.

The situation for women's clothing is considered particularly satisfactory. The sector, which employs some 150,000 people, last year produced goods worth LIt14,700bn and exported 39 per cent of them.

The first six months of this year showed exports growing by an additional 11.8 per cent. But most notable was a surge of more than 40 per cent for exports to Japan, which has now replaced the US as Italy's third largest market. Similar boosts came in exports to Greece and Hong Kong.

In men's wear (excluding leather clothing) results were also impressive, with sales to Japan growing 64 per cent. Italian men's clothing, produced by some 150,000 workers, grew in value by three per cent to LIt14,400bn. Over a third of this, or LIt4,901bn, was exported, representing an overall increase of six per cent.

Sales to new markets such as Spain and Greece grew by 70 per cent. Mr Paolo Lombardi, director of the Association of Knitwear and Stocking producers, says Italy "is the only industrialised country which so far has been able to deal successfully with the competition of countries with low labour costs."

Italian manufacturers currently produce 38 per cent of the knitwear and stocking products in the European common market, and account for 31 per cent of the area's exports. The formula for success has been high product quality combined with decentralised production structure which encourages flexibility and high productivity.

There are, therefore, some clouds on the horizon, fashion insiders say. Clothing producers here believe North/South tensions and recent developments in eastern Europe would well bring cultural changes likely to modify many people's attitudes toward fashion. According to a study made by Mr Gianpaolo Fabris, a sociologist, a "new austerity" is likely to emerge over the next decade. As one fashion industry spokesperson put it, "When she plans a trip to Berlin, tomorrow's career woman is likely to think very carefully about how she should dress."

COMPANY NOTICES

THE COMMERCIAL COMPANY OF SALONICA PLC

Notice is hereby given that the seventy-ninth Annual Meeting of the Company will be held at the Company's offices in Athens (Greece), 49 Kerkyras Street on Tuesday the 15th day of December 1990 at 12.00 noon for the following purposes:

1 To receive the Report of the Directors and the audited accounts of the Company for the financial year ended 31st December 1989.

2 To propose the following resolution for the reelection of Directors of which special notice has been given to the Company in accordance with Section 42 and 185 of the Companies Act 1948: that Mrs Charlotte J Saporta and Mr Dimitrio P Spiliakos who has attained the age of 70 years be reelected as directors of the Company.

3 To approve the reappointment of Mr Antonios F Coumbouis who offers himself for reelection as Director of the Company.

4 To approve the reappointment of Hardy & Co (London) as Auditors of the Company

5 To approve that the remuneration of the auditors shall be fixed by the Board and to determine the remuneration of the directors.

In accordance with Article 21 of the Articles of Association, shareholders desiring to be present or to vote at the meeting must deposit their shares at least five days before the Meeting at the offices of the Company at Thessaloniki or the Company's office in London, Messrs Hardy & Co., 166 Streatham Hill, London SW2 4RU or at Pierson, Heldring and Pierson, Amsterdam.

Any member of the Company entitled to attend and vote at the Meeting may appoint another person (member of the Company or not) as his proxy to attend and vote instead of him.

Salonica, 30th October 1990

By Order of the Board
Charlotte J Saporta
Director

LEGAL NOTICES

IN THE MATTER OF: CISS (DATA MANAGEMENT) LIMITED

NOTICE IS HEREBY GIVEN, pursuant to section 98 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above-named company will be HELD AT SHELLEY HOUSE, 3 NOBLE STREET, LONDON EC2V 7DQ on THURSDAY 29 NOVEMBER 1990 at 3.00 pm for the purposes mentioned in sections 99 to 101 of the said Act.

A list of the names and addresses of the company's creditors may be inspected free of charge at SHELLEY HOUSE, 3 NOBLE STREET, LONDON EC2V 7DQ between 10.00 am and 5.00 pm on 26 November 1990 and 27 November 1990.

Creditors wishing to vote at the meeting must (unless they are individual creditors attending in person) lodge their proxies at SHELLEY HOUSE, 3 NOBLE STREET, LONDON EC2V 7DQ no later than 12.00 noon on 28 November 1990.

Creditors must submit a proof of debt before voting and, unless they surrender their security, secured creditors must give particulars of their security and its value.

DATED this fifteenth day of November 1990

BY ORDER OF THE BOARD

CRIS OGILVIE-TAYLOR
Director

IN THE MATTER OF: RSVP DIRECT LIMITED

NOTICE IS HEREBY GIVEN, pursuant to section 98 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above-named company will be HELD AT SHELLEY HOUSE, 3 NOBLE STREET, LONDON EC2V 7DQ on THURSDAY 29 NOVEMBER 1990 at 2.00 pm for the purposes mentioned in sections 99 to 101 of the said Act.

A list of the names and addresses of the company's creditors may be inspected free of charge at SHELLEY HOUSE, 3 NOBLE STREET, LONDON EC2V 7DQ between 10.00 am and 5.00 pm on 26 November 1990 and 27 November 1990.

Creditors wishing to vote at the meeting must (unless they are individual creditors attending in person) lodge their proxies at SHELLEY HOUSE, 3 NOBLE STREET, LONDON EC2V 7DQ no later than 12.00 noon on 28 November 1990.

Creditors must submit a proof of debt before voting and, unless they surrender their security, secured creditors must give particulars of their security and its value.

DATED this fifteenth day of November 1990

BY ORDER OF THE BOARD

CRIS OGILVIE-TAYLOR
Director

IN THE MATTER OF: MAILING AND RESPONSE CENTRE LIMITED

NOTICE IS HEREBY GIVEN, pursuant to section 98 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above-named company will be HELD AT SHELLEY HOUSE, 3 NOBLE STREET, LONDON EC2V 7DQ on THURSDAY 29 NOVEMBER 1990 at 4.00 pm for the purposes mentioned in sections 99 to 101 of the said Act.

A list of the names and addresses of the company's creditors may be inspected free of charge at SHELLEY HOUSE, 3 NOBLE STREET, LONDON EC2V 7DQ between 10.00 am and 5.00 pm on 26 November 1990 and 27 November 1990.

Creditors wishing to vote at the meeting must (unless they are individual creditors attending in person) lodge their proxies at SHELLEY HOUSE, 3 NOBLE STREET, LONDON EC2V 7DQ no later than 12.00 noon on 28 November 1990.

Creditors must submit a proof of debt before voting and, unless they surrender their security, secured creditors must give particulars of their security and its value.

DATED this fifteenth day of November 1990

BY ORDER OF THE BOARD

CHRIS OGILVIE-TAYLOR
Director

NOTICE TO CREDITORS

AFCOR INVESTMENTS LIMITED

AFCOR NOMINEES LIMITED

Notice is given pursuant to Court Order [illegible]

[illegible]

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS

We J D Harrison and R E C Cook of Cork Gully, Abacus Court, 6 Minshull Street, Manchester, M1 3ED were appointed Joint Administrative Receivers of Turnbull Crane Hire Limited, Registered No [illegible] by The Royal Bank of Scotland PLC on 15 November 1990

J D Harrison
Joint Administrative Receiver

OFFICIAL NOTICE

The loss has been reported to us of the London Metal Exchange Warrant No. 691920 covering 24 (Twentyfour) drums PRIMARY NICKEL BRIQUETTES of Impala Platinum Ltd. production with a weight of 6204 Kgs. Gross and 6000 Kgs. Nett - stored in warehouse C. Steinweg Rotterdam. We have been requested to issue a duplicate of this warrant. Anyone claiming title to the goods/material in question is invited to enter protest by means of Summons against the delivery of the material or the issue of a duplicate warrant.

C. SHAW LOVELL & SONS Ltd.,
PLANTATION HOUSE, 31/5
FENCHURCH STR.
LONDON EC3M 3DX

EVERARDS BREWERY LIMITED

NOTICE is hereby given that the transfer books and register of the 5% Cumulative Preference Shares of the above named Company will be closed on 17th December 1990, to facilitate the preparation of the payment of the half-yearly dividend on 31st December 1990

By ORDER OF THE BOARD
P STEPHENS
FINANCIAL DIRECTOR & COMPANY SECRETARY

ADVANCED PRINT MEDIA LIMITED

Registered No 2191482
Trade classification 011
Name and address of joint administrative receivers
David John Stokes and
Michael Joseph Moore
Cork Gully
1 East Parade
Sheffield S1 2ET
Office holder numbers 2682 and 5562
Date of appointment 16 November 1990
Name of appointor Lloyds Bank Plc

THE POWER OF BELIEF: No.4 in a series

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UK NEWS

THE THATCHER RESIGNATION

Straightforward pitch promises calm and intelligent Tory leadership mixed with experience and steel

Hurd puts himself forward as binder of party wounds

MR DOUGLAS HURD'S pitch for the leadership of his party and his country is straightforward.

After the turmoil of the past few weeks, the Tories need a calm, intelligent leader who will bind their self-inflicted wounds and take them united into the next general election.

The nation will need those same qualities of calm and intelligence – as well as experience and steel – to face the prospect of war in the Gulf and the difficult negotiations on the shape of the European Community. It needs also a new kind of Toryism, one that puts "social responsibility" alongside "sound money".

Mr Hurd's claim to be the strongest candidate of unity is acknowledged even by his rivals, and he makes much play of it.

"It's the first thing. It's the big thing. What is lethal for us is division ... It is absolutely the first political need," he says.

With an election looming within the next 18 months a united party is "not a sufficient condition but it a necessary condition" for a fourth term.

So how would he win back the voters once he had halted the Tory Party's march to self-destruction?

Sitting in the rather grand office at Westminster reserved for the foreign secretary, Mr Hurd was not prepared to disavow the policies of the leader who a few days earlier had been mortally wounded by Mr Michael Heseltine.

Of the three candidates, he has appeared most reticent throughout about detaching himself from Mrs Margaret Thatcher – even though it is Mr John Major who has emerged as the favourite son of her supporters.

The judgement of many of his friends is that Mr Hurd has suffered from that. He is not a natural "Thatcherite" – much less so than Mr Major – but his instinctive loyalty has inhibited his efforts to set out a distinctive programme.

But in his own, sometimes diffident way, he is prepared to sketch out the beginnings of a rather different agenda.

The underlying concept, he says, is nebulous but crucial. The priority is "getting back alongside economic prosperity a greater sense of responsibility and citizenship". The Conservatives have rightly focused on the role of the individual. They now need to need pay attention to the virtues of the community.

"The attitude seemed to get lop-sided and the emphasis seemed to be on the standard of living of the individual as opposed to responsibility towards the community," he says.

His is a philosophy that recognises that the state has a role, that the government's approach needs rebalancing; that the next prime minister has to persuade as well as assert.

"The state's job is to protect the weak and to provide those public services which can't be otherwise provided," he says. Education and health fall into that category. Mr Hurd is as aware as anyone that the electorate at large is not impressed with the government's record.

But there are other areas where the state has a part to play, even if it is that of an enabler rather than a provider.

He is dismayed, for example, by the condition of the capital's underground system, by the "catastrophic filth" found in some London boroughs. The government needs to look at ways to deal with the run-down council housing estates to which millions of people are still condemned.

"We need infinite imagination and ingenuity ... and a bit of money," he says.

Like the other two candidates he also stresses that reform of the poll tax would head the agenda of a cabinet under his direction.

There is no question of a shift from the first priority of economic policy – the defeat of inflation. Mr Hurd's comments on public spending and taxation are similarly orthodox.

Fellow ministers who know him well say he would be no soft touch as far as public spending is concerned. He stresses himself that what he

His is a philosophy that recognises that the state has a role, that the government's approach needs rebalancing

wants is more effective management of the resources already injected into health and education. "If you look at the NHS, the money's there. What is doesn't have is 'good stewardship'. Similarly with education. Teachers pay is part of the equation in the effort to improve standards in the schools. But I'm not sure that it is the most important part."

Nor is the foreign secretary a soggy liberal on other issues. His period as home secretary left many of his colleagues dismayed at his approach to issues such as the security services and the freedom of the press.

But there is none of the ideological fervour of Thatcherism. Tax cuts and progressive reductions in public spending are goals to shoot at, but after the successes of the past 10 years they are no longer everything.

"I think that you must go on trying to reduce it (public spending), and the aim must be that. Just as the aim must be to reduce taxation."

But how high on the agenda is the ambition of a 20p basic rate of tax? "It's clearly not an overwhelming priority, otherwise we would have been doing it in every budget. But it should be your aim to do that."

The sense is that if governments do not have always in the front of their minds the aim of cutting spending and taxation, then both will rise inexorably. "That's the way Whitehall works," he says.

It leaves the suspicion that Mr Hurd would not mind that much if for a few years at least both remained roughly where they are now in terms of their share of national income – if better schools or hospitals came before another 2p off the basic rate of tax.

Nor does he seem fazed by the evidence that his rivals in the leadership contest have, if the opinion polls are to be believed, a better claim to "winnability". He has no doubt that a Tory party united under his leadership could beat Mr Neil Kinnock. There is little more to be said.

It was Europe though that provided the trigger for the current political crisis, and here Mr Hurd is both optimistic and circumspect at once.

He sticks by the government's alternative to the Delors framework for a single currency and central bank and is sceptical whether it is possible in the current political climate to go much further.

Britain's partners, he insists, are beginning to see the economic traps in the rapid move to a single currency envisaged in the Delors plan. The poorer EC states would need guarantees of massive transfers of resources.

Others are also aware of the point at which Britain will say no, he belives. France and Germany do not want to see it detached. The "hard Ecu" proposed by Mr Major is an ingenious compromise.

"It doesn't pretend to be the last word," he says. "It was always accepted that there would be further developments later. But it would put those developments into the hands of the markets."

What about the other compromise suggested by Sir Leon Brittan? Under that plan the government could sign up to the principle of a single currency while retaining for parliament the right to stand aside at a later date.

There is a long pause before the reply. "I doubt whether it will run in the form he has expressed it ... I think there would be genuine difficulty in going beyond that (the hard Ecu) in the sense of signing up even in principle to a single currency and central bank."

The answer is illuminating in terms of the tone in which it is expressed. Mr Hurd seems to be saying that a single currency is not a good idea, that it would not work in the form currently envisaged. He clearly believes that.

But there is little sense of the instinctive hostility to the general principle which comes through so clearly from Mrs Thatcher and, to a lesser degree, from Mr Major. As prime minister Mr Hurd would be open to argument.

It is the Gulf though that is uppermost in his mind. As the United Nations prepares to discuss another resolution against Iraq, he says that he is "fearful of war". President Saddam Hussein's vision has been blurred by talk of compromises, but none are available. Iraq must withdraw or face military action.

The final words are unspoken, but they are clear: Mr Hurd, rather than Mr Major or Mr Heseltine, believes he would be the prime minister most able to cope with what inevitably would be a bloody conflagration.

Philip Stephens

Trevor Humphries

Getting the swing of things: Douglas Hurd with his family at their Oxfordshire home yesterday

Heseltine's caring Conservatism

"FOR 40 YEARS we have over-consumed and debased the currency, with consequences you only have to travel abroad to see – it has to stop". Giving independence to the Bank of England would be "the clearest signal that you believe in sound money".

Mr Michael Heseltine, interviewed in his house off Belgrave Square, was explaining one of the distinctive items in his appeal to Tory MPs. He sees an independent Bank of England – proposed by Mr Nigel Lawson when he was chancellor but rejected by Mrs Thatcher – as a way of strengthening the British economy because it would prevent ministers from manipulating monetary policy in a politically convenient way.

"It has also a very attractive aspect in terms of the growing cohesion of Europe," Mr Heseltine says. Economic and monetary union would not happen unless the national economies marched in step, and "marching in step means marching in step with the German economy".

An independent Bank of England with similar objectives to those of the Bundesbank would help to create "a building-block situation" in which those two central banks, "hopefully with 10 others", would be part of a "natural evolutionary process" towards monetary union.

Mr Heseltine passionately wants the British economy to perform better, but he insists that, far from repudiating Thatcherism, he would carry the revolution further.

He recalls his role in the first big privatisation, the sale of council houses. He sold the idea to the voters during the 1979 election campaign, then steered the legislation through – "a very sophisticated and delicate exercise". It was the success of that programme, he claims, that persuaded the Treasury of the attraction of selling off state-owned assets.

As environment secretary "I changed the balance in favour of the private sector in field after field", he says. He reduced the number of civil servants by 13,000, abolished 60 quangos, forced competitive tendering on the local authorities. Again as defence secretary he exposed the contractors to the discipline of competition, "against the advice of the military and the civil servants" who wanted the cosy partnership to continue.

"There is no question of hesitating, or abandoning what we have achieved. It was too tough to achieve to think of abandoning it. We need to apply the same attitudes and the same weapons to the different circumstances of the 1990s." As for the charge of "corporatism", Mr Heseltine regards it largely as an invention by political opponents during the "process of distancing" that started after he resigned from the Cabinet in 1986.

He says that the government, particularly the Department of Trade and Industry, impinges on the private sector in a variety of ways – export credit, the negotiation of government-to-government contracts, research and development, training and education, and investment in the infrastructure.

"Government is doing these things. You can either pretend it isn't happening or be conscious that it is happening and think about its consequences.

"When I say I want a Department of Trade and Industry that recognises the relationship between government and industry, I want someone in government who is thinking about the consequences of government on the private sector. It has nothing to do with subsidies, plans, sogginess or cosiness – quite the reverse."

He is careful not to be critical of Mrs Thatcher (except over the poll tax and her recent dismissive remarks on the hard Ecu), still less of his two rivals for the leadership. But he suggests he is ahead of them in his ideas. On training, for example, he supports the direction of government policy – "some people would call it intervention in the marketplace" – but he wonders whether the "local dynamic" could be enlarged by cutting the link with central government and financing investment in training on a more local basis, perhaps offset by reductions in corporation tax.

He is pragmatic on the balance between tax cuts and public spending. One priority might be a lower starting rate – "the jump from nothing to 25 per cent is too big" – but he is reluctant to be specific. "These are matters for the chancellor, for collective judgment and for the circumstances of the time."

As for European monetary union, he has two priorities. One is to avoid the City of London, "one of our most significant commercial assets", becoming marginalised.

The other is not to repeat the error of the EC's common agricultural policy, where the commercial interests of France and Germany were allowed to call the tune and the UK paid a heavy price for being left out.

"The French and Germans are going to go ahead with some form of monetary union whether we like it or not."

If the City of London is excluded from the new decision-making processes, there will be a drift of activity to the centre of the European economy, damaging the UK not only in financial services but also in manufacturing, as non-European investors "get the message" about British attitudes to the EC.

He refuses to see the idea of a single currency in the stark constitutional terms posed, for example, by Mr Norman Tebbitt. "It is not a destination that we are trying to get to, come what may." He envisages a cautious, practical journey, step by step, leaving to the sovereignty of parliament the decision to take a particular step at a particular time.

"A single currency cannot be imposed on an unwilling country. All you can do is follow the market. If you create an economic climate by stabilising exchange rates, holding them and proving you can continue to do so, you produce an economic bedrock in which a single currency could emerge as part of an evolutionary development – if people want it."

He dismisses talk of federalism, which he regards as another trumped-up charge against him. He prefers to speak of new forms of co-operation between nation states.

"It could well be that if you have done all these things and proved you can hold all these stages of economic stabilisation, such was the acceptance of the consequences that there would be no political controversy. The council of ministers formula would have nothing to talk about because the stability would exist." All this, he stresses, is a long way off.

Asked to define his political philosophy, he says: "I regard myself as a Tory. This recognises the importance of the market place and competition as the most effective way of maximising economic resources, but it recognises also that the market knows no morality. In any competitive system there will be privilege.

"Where I part company with the Manchester School of *laissez-faire* liberals is that with privilege in my world go obligations and responsibilities. That is totally compatible with the traditional philosophy of the Tory party."

Is this caring Conservatism? "That is correct. You can see it everywhere around you and so it has been throughout the history of the Tory party. It is one of the reasons I could not live with the community charge."

Does he differ with the Manchester liberals on the primacy of competition? On the contrary, he says, he would go further than the Thatcher governments have done in reducing monopoly and concentration.

"I don't like the accumulation of wealth in the hands of the institutions – I would rather have it in private hands. Since we subsidise quite a lot of it, this seems an area for inquiry – within the confines of cabinet government."

As for the charge of erratic behaviour and lack of judgment, he replies: "You don't make defence secretaries of impetuous people and, if you do, you don't reappoint them. Mrs Thatcher saw me at work for three years before she made me defence secretary. She made a considered judgment to entrust me with all that is implied in being defence secretary.

"She could have changed her mind after three months when I had done the essential job of beating CND, but she didn't. That is the reality of my colleagues' judgment about me. All the rest of it is – how shall we put it – the flavouring that comes from surviving for four years in what has not been an easy period in my life."

Geoffrey Owen

Ashley Ashwood

Mr Heseltine with his wife Anne: insists he would carry the Thatcher revolution further

PROSPECTS OF THIRD BALLOT

Clear win unlikely, say MPs

MANY MPs believe that the leadership of the Tory party could be determined on the basis of second-preference votes cast in a final ballot.

With all three campaigns claiming significant and growing support, feeling is increasing at Westminster that none of the candidates will win the necessary overall majority of 187 Tory MPs out of the total of 372 to win outright tomorrow.

If that is the case, the contest would go to a third ballot on Thursday. The rules say that the three highest-scoring candidates go through to the third round. As there are only three in the second round, all would qualify.

On the third round, under the single transferable vote system, MPs have to indicate first and second preferences.

Failure to put two preferences would count as spoiling the ballot paper.

Once the first preferences have been counted, the votes of the lowest-scoring candidate are redistributed according to the second preferences. There has never previously been a need for a third ballot, and party officials are relying on likelihood that there will not be a tie for second place as the rules give no guidance on the procedure to be followed.

Supporters of Mr John Major, the chancellor, say that he hopes to be the top-scoring candidate in the second ballot, but add that they have not yet made any assessment of how second-preference votes might fall in the third ballot. Mr Douglas Hurd, the foreign secretary, is said to be basing his strategy on coming second to Mr Major in tomorrow's ballot and then picking up the second preferences of Mr Michael Heseltine's supporters in the third round.

Some MPs were sounding happy last week to support either Mr Major or Mr Hurd against Mr Heseltine.

However, the former defence secretary's campaign team believes that, if Mr Hurd scored lowest in the third round, most of his second-preference votes would go to their candidate.

Mr Heseltine's team says that many MPs who will vote for Mr Hurd do not want to see Mr Major become party leader this week.

This is because a win for Mr Major could limit the opportunity for other younger Tories who have not entered the contest this time such as Mr Chris Patten, the environment secretary, and Mr Kenneth Clarke, the education secretary, to challenge for the leadership at a later stage.

There are also suggestions from both the Heseltine and Hurd campaigns that, because Mr Major is being seen as the "Thatcherite" candidate, he would be unlikely to pick up second-preference votes among supporters of either Mr Hurd or Mr Heseltine on the left of the party.

Alison Smith

MR JOHN MAJOR and Mr Michael Heseltine are almost "neck and neck" in betting on who will be the next leader of the Conservative party, according to Ladbroke, the bookmaker.

Mr Major was odds-on favourite at 5-4 on yesterday, compared with Saturday's odds of 6-4 on, but Ladbroke said some "serious bets" on Mr Heseltine had narrowed his odds from 6-4 against to evens.

Mr Douglas Hurd is losing ground: his price has weakened from 6-1 to 10-1 against.

Ladbroke estimates that it has received £350,000 from punters since betting on the latest round of the leadership contest began and expects to have received about £500,000 by the time the result is announced tomorrow. The bookmaking industry as a whole could take around £1m on the contest, Ladbroke said.

SIR GEOFFREY HOWE

Praise for 'wise' move by Thatcher

SIR GEOFFREY HOWE, the former deputy prime minister, yesterday described Mrs Thatcher's decision to resign as "immensely wise". He denied that he was backing Mr Michael Heseltine out of spite.

Speaking on BBC Television, Sir Geoffrey described Mrs Thatcher's decision to stand down as "an act of great statesmanship".

Sir Geoffrey denied that his decision to back Mr Heseltine was because of Mrs Thatcher's dislike of the former defence secretary. It was because he had the best chance of winning a general election.

Mr Heseltine had experience and leadership qualities and was committed to the prospect of an independent central bank. That showed "why people like Nigel [Mr Lawson] and myself regard him as economically sound", he said.

Ralph Atkins

OPINION POLLS

Public narrows field to two as Labour's lead evaporates

SUPPORT FOR Mr Michael Heseltine and Mr John Major is running about level in the country, with Mr Douglas Hurd trailing in third place, according to opinion polls carried out for Sunday newspapers.

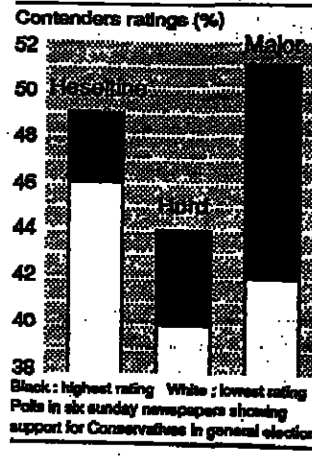
The contest for the Tory party leadership and the resignation of Mrs Margaret Thatcher have also badly damaged Labour's electoral prospects, the polls suggest.

A consistent Labour lead of about 10 percentage points has evaporated, with a convincing Conservative general election victory now forecast by most polling organisations – if either Mr Heseltine or Mr Major becomes prime minister.

The results of the heavy polling over the weekend will be treated cautiously by politicians and observers alike, particularly because no long-term trend can be established.

Labour was yesterday quick to dismiss the party's apparent fall in popularity as purely temporary, with the polls responding to the resignation of the unpopular Mrs Thatcher and media attention concentrated on the Conservatives.

Sunday's Polls



Black: highest rating White: lowest rating
Polls in six sunday newspapers showing support for Conservatives in general election

However, the six polls showed broadly consistent results when people were asked how they would vote in a general election if one of the three candidates for the leadership was prime minister.

A Tory party led by Mr Heseltine would attract between 46 per cent and 49 per cent of votes, enough to return a Conservative government with a workable majority of about 50 seats.

Support for Mr Major was more volatile, with the polls suggesting that between 39 per cent and 51 per cent would vote Conservative under his leadership.

Backing for Mr Hurd was significantly lower, with between 40 per cent and 44 per cent of the electorate willing to vote Tory if he was prime minister – only slightly ahead of the Labour party.

John Mason

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UK NEWS

THE THATCHER RESIGNATION

JOHN MAJOR

Growing support from the constituencies

MORE THAN 150 MPs have pledged support for Mr John Major, the chancellor, in tomorrow's leadership ballot, his campaign team said yesterday. Supporters said the message from constituency associations was that they were "overwhelmingly" in favour of Mr Major, and that this had increased support from MPs throughout the party.

Mr Major's campaign received a boost over the weekend both from further cabinet endorsements, and from opinion polls which suggested that support for the Tories under his leadership was broadly in line with that for the party under Mr Michael Heseltine. In each case it would be enough to win an election.

In television interviews Mr Major rejected the "Son of Thatcher" label, but outlined a tough stance on Europe.

He received the public support of Mr David Waddington, the home secretary, yesterday. Following the declaration from Mr Tony Newton, the social security secretary, at the weekend, he now has seven cabinet backers. Mr Major was also endorsed yesterday by Mr Ian Lang, a Scottish office minister.

Mr Waddington said that Mr Major was a "pragmatic no-nonsense fellow" who had "all the skills to lead the party and the country through the 1990s.

He added that the chancellor was far more likely to unite the party than Mr Heseltine because of Mr Heseltine's part in the prime minister's removal.

The Major campaign sought to play down the backing for Mr Heseltine by Sir Geoffrey Howe and Mr Nigel Lawson who was chancellor throughout Mr Major's time as chief secretary to the Treasury.

In an interview on TV-am with David Frost, Mr Major said he did not think the endorsement would have great impact: "In some ways it's rather like today's cabinet against yesterday's."

"If it is Geoffrey's view and Nigel's view that it should be Michael," he said later. "They are perfectly entitled to express that view and there will be no concern from me about it."

Speaking to Brian Walden on London Weekend Television, Mr Major said that being a good European did not mean accepting every new idea from Europe, but "arguing for what you think is right for the development of the whole European series of nations."

He said that the other EC countries were determined that the UK should be a central part of Europe's future, and it was not in the Community's interest to isolate any particular nation.

"I see no circumstances at the moment in which we could or would present legislation to the House of Commons to surrender more sovereignty to Europe," he said.

Alison Smith

Alan Harper

In the frame: John Major on the campaign trail yesterday

MICHAEL HESELTINE

Outright win hinges on waverers

OUTRIGHT victory tomorrow in the second ballot of the Tory leadership contest now depends on winning the support of 30 undecided MPs, campaign managers for Mr Michael Heseltine claimed last night.

Sir Neil MacFarlane, the MP for Sutton and Cheam now counting heads for the former defence secretary, said his candidate had a "substantial net increase" on the 152 votes he recorded in the first ballot against Mrs Thatcher. He went on to claim a "very healthy lead" over Mr John Major, dismissing the chancellor's backers' claim of a similar number of supporters as highly dubious.

While stopping short of promising a second-ballot victory, Sir Neil would not be drawn on possible tactical voting if it came to a third round: "I am not thinking beyond Tuesday."

Morale was "very high", he said, following public declarations of support from Sir Geoffrey Howe, Mr Nigel Lawson, Lord Carrington and several prominent right-wingers, including Mr Edward Leigh, a junior trade minister described by Mr Heseltine as part of Mrs Thatcher's "praetorian guard".

Yesterday, Mr David Hunt, the Welsh secretary, became the first cabinet minister to add his endorsement. He was joined by Lord St John of Fawsley.

The Heseltine campaign team, now said to number more than 20 MPs, were clearly pleased that the timing of the declarations from the former deputy prime minister and the former chancellor had offset the impact of opinion polls published at the weekend. While most of these continued to show Mr Heseltine ahead of his rivals, they also demonstrated a substantial strengthening of Mr Major's position.

Mr Heseltine was quick to emphasise in interviews yesterday that he remained ahead in the crucial northern and Midland marginal seats that the Tories had to hold to win victory in a general election. "The more you look at the details the more you find that my position is the widest where the critical balance of votes lies," he told a BBC interviewer. He dismissed claims that he could not unify the party, pointing out that Mrs Thatcher had rapidly pulled the party together in 1975 after her challenge to Mr Edward Heath.

The Heseltine camp now plans to use the last 24 hours before balloting to win over waverers and persuade Mr Douglas Hurd's supporters that they are wasting their votes.

If the contest goes to a third ballot, Mr Heseltine's campaign team are confident he will win the bulk of Mr Hurd's second-preference votes as the foreign secretary's support includes several future leadership candidates – such as Mr Chris Patten, the environment secretary – who do not wish Mr Major to win this time.

Ivo Dawnay

DOUGLAS HURD

Campaign team is setting its sights on third-round win

MR DOUGLAS HURD'S campaign team was yesterday aiming for second place in tomorrow's ballot for the Conservative leadership in order to win on a third round, when MPs' second preferences are counted.

The foreign secretary's supporters acknowledged that Mr John Major, the chancellor, was in the lead. But they believed Mr Heseltine's backing had dropped substantially and that Mr Hurd was fewer than 20 votes behind.

Speaking on TV-am, Mr Hurd insisted he had a "good chance" of victory, saying: "Because we'll certainly get to a third ballot, I'll come through the middle and win."

Mr Hurd's team is relying on the rules that require a third round using a single-transferable-vote system on Thursday if no candidate wins an outright majority tomorrow. Canvassing by his team shows that Mr Hurd has an overwhelming lead in Conservative MPs' second preferences. They also show that many MPs remain undecided.

In the first ballot, Mr Hurd's managers believe around 100 will vote for him: only slightly more than their estimates at the end of last week. They will be fighting hard to ensure the other two camps do not succeed in squeezing him still further in the next two days.

Mr Hurd won backing at the weekend from Lord Whitelaw, the former deputy prime minister, and Mr Peter Brooke, Northern Ireland secretary and the fifth cabinet minister to join his camp.

He is playing heavily on his appeal as the candidate who can best unite the party – a task he thought Mr Heseltine would find hard, given "the sadness which is in every active Conservative's heart this weekend and finding its expression in angry meetings".

However, he refused to commit himself to including Mr Heseltine in his cabinet. Instead he promised if he won to have a "long talk" with the former defence secretary.

In television interviews at the weekend, Mr Hurd repeated that there was "no daylight" between himself and Mr Major on European policy, but he went further than before in outlining poll tax reform.

Speaking to Brian Walden on London Weekend Television, he favoured closer links between poll tax bills and ability to pay. With Mr Chris Patten, the environment secretary, as a leading member of his campaign team, he said with confidence that the "cupboard is not bare of ideas".

Mr Hurd's appearances on television were relaxed and confident. On one, he dismissed accusations that he was too much of an old-fashioned Eton-educated Tory as "inverted snobbery".

Ralph Atkins

Mounting pressure for MPs to make a decision

TORY backbenchers such as Mr John Bowis, after a weekend of hard thinking, will today face more pressure to promise their votes to one of the three candidates.

Many MPs have already publicly stated their voting intentions but Mr Bowis, MP for the marginal London seat of Battersea, who supported Mrs Thatcher in the first ballot, has yet to reach a decision.

He plays down policy differences between the three men: all support an evolutionary approach to European political and monetary union.

His first instinct was to support Mr Douglas Hurd. The foreign secretary has long impressed him with statesmanlike performances in the Commons and his handling of the Gulf crisis.

However, Mr Bowis has two reservations – whether Mr Hurd has the campaigning skills to inspire the public, and uncertainty about his domestic policies.

The Battersea MP yesterday admitted he is now leaning towards supporting Mr John Major. Clearer social policies and understanding of inner city areas are two reasons to for plump for Mr Major, he said.

However, Mr Bowis is worried that the No Turning Back Group, the right wingers dedicated to maintaining radical Thatcherism, may exert too much influence on a Major prime minister.

Mr Heseltine, he agrees, remains the best showman, with undoubted campaigning skills and best able to attract the less committed Tory voter. His excitable personality, however, means a higher risk factor than with the other candidates, he said.

Mr Bowis has reached no final decision, which guarantees him the closest attentions of campaign managers which, he insists, have been "gentle". At least so far.

John Mason

Health reforms under attack

By Alan Pike, Social Affairs Correspondent

"Bold reformer": review praises former social services secretary John Moore

THE government's forthcoming health reforms are a "great missed opportunity" and fail to enhance consumer choice, Dr David Green, director of the Institute of Economic Affairs, says in a pamphlet published today.

The IEA, a free-market think tank, was influential in attempting to encourage the government to adopt radical solutions during its National Health Service review two years ago. Dr Green says, however, that the government review was a "sorry affair from the outset" with a narrow focus. That was because Mrs Margaret Thatcher decided that to appear opposed to the NHS was to commit political suicide.

The only proposals taken seriously were those which envisaged continuing to fund health care from taxation with services delivered free at the time of use.

During the year-long review, says Dr Green, Mrs Thatcher appears to have opposed reforms in the method of funding the NHS "boldly being contemplated" by Mr John Moore, who was then social services secretary.

Contrary to the claims of some critics the government's reforms which will be introduced next April were not conceived as laying the groundwork for privatisation and had no wider objectives. "If the government had been true to its own declared philosophy it should have attempted to restore choice and personal responsibility to consumers, and it should have attempted to end the paternalism of providing services in kind paid for by taxes on the people," he continues.

The government says its new funding proposals, separating the financing of Health care from its provision, will increase consumer choice because money will follow patients. Dr Green says that is implausible since the patients will not determine how the money is spent.

He says a nationalised health service will never have enough funds to meet the total needs of consumers. So long as the government decides how much the nation can afford to spend on health, the NHS will remain above all a "device for rationing access to medical services". That is an essentially wartime ethos, Dr Green says.

As consumerism grows, governments will find it increasingly difficult to hold public expectations in check.

The challenge, says Dr Green, is to define the civilised standard of health care to which everyone should have access, and determine how to make this available through enforceable insurance contracts.

NHS Reforms. IEA, 2 Lord North St, London SW1P 3LB. £4.95.

CBI says trade deficit will fall to less than £10bn next year

By Edward Balls

THE UK ECONOMY will contract in 1991, although a lower demand for imports will reduce the trade deficit to less than £10bn next year, according to the Confederation of British Industry.

The CBI, in its latest quarterly forecast published today, predicts that gross domestic product will fall by 1 per cent in 1991.

That represents a considerably more pessimistic outlook for GDP than in the Treasury's latest forecast which predicted growth of 0.5 per cent next year.

A weaker world economy, higher oil prices and signs from recent surveys that the downturn is deeper than previously anticipated are the reasons for the downward revision of growth prospects in the latest forecast, the CBI said.

The previous CBI forecast, published in August, forecast output growth of 1.3 per cent next year.

The CBI still expects output to recover in the second half of next year. However, the recession in the first six months of next year will be deeper than the Treasury predicts, while the recovery will be smaller and arrive later than the Treasury hopes, said Mr Sudhir Junankar, deputy director of economics at the CBI.

The silver lining for the government will be that the sharper predicted fall in domestic demand should produce a greater reduction in the current account deficit next year. The Treasury has forecast a deficit of £11bn next year.

The substantial fall in the current account deficit in the CBI forecast comes in spite of a predicted poor export performance next year.

The CBI has revised its forecast for export growth in 1991 to 1.8 per cent, down from 4.7 per cent in August.

Manufacturing will once again bear the brunt of the recession, with a forecast 2.3 per cent fall in output next year and a 5.6 per cent fall in investment. Investment is expected to recover in 1992 as output picks up.

The CBI's inflation forecast is similar to government projections.

Retail price inflation is expected to fall to 5.4 per cent by the end of 1991, and to 4.5 per cent by the end of 1992.

This fall in inflation and the forecast of a recovery in economic activity in the second half of 1991 assumes cuts in interest rates over the coming months, with base rates down to 11 per cent by the end of 1991.

The CBI forecast also assumes average oil prices at $26 a barrel next year and world trade growth of 4 per cent.

A war in the Gulf would raise oil prices and depress world economic activity. That would depress UK growth prospects further, the CBI said.

EXTRACTS FROM THE CBI FORECAST
% change on previous year

	1990	1991	1992
GDP (output)	1.0	-1.0	2.6
of which manufacturing	0.3	-2.3	2.8
Fixed investment	-2.0	-6.1	4.5
of which manufacturing	-1.6	-5.6	2.6
Inflation (annual average RPI)	10.4	5.4	4.5
Exports: goods, services	4.5	1.8	4.2
Imports: goods, services	1.9	1.4	4.3
Current account (£bn)	-16.0	-9.8	-9.2
Stockbuilding (£bn)	-1.1	-1.9	0.2
Unemployment (millions)	1.7	1.9	2.1

NEWS IN BRIEF

Ruling today on 'working class' flats

THE DUKE of Westminster will learn today whether his 532 flats on a prime residential site in Westminster should be kept solely for housing the "working class".

Mr Justice Harman is due to give judgment on the future of the flats, assigned in 1937 by the then Duke of Westminster to Westminster City Council on a 999-year lease.

A condition of the lease was that they were used as "dwellings for the working class and for no other purpose".

The Conservative-controlled council, led by Lady Porter, is seeking court declarations that the duke's condition is "spent and no longer of any effect" and that the Lands Tribunal has power to modify or discharge the restriction.

The council wants to be free to sell the flats on the Page Street Estate, Millbank, under its "designated sales" programme to anyone living or working in its area. It claims the term "working class" no longer has any meaning and that the condition should be set aside.

The sixth Duke of Westminster, Gerald Cavendish Grosvenor, 38, and two trustees of the Grosvenor Housing Scheme accept that sitting tenants have the right to buy under the 1985 Housing Act.

But they insist that the phrase "working class" is still relevant in contemporary society and the flats should remain available as low-cost rented accommodation for people on low incomes.

Office plan dropped

TRAFALGAR House Developments has dropped a plan to build a 20-story office tower and a hotel near Paddington station in London.

There had been complaints about the effect on traffic and the landscape.

Its revised plans for the site, which covers 13 acres of derelict land around a canal basin, will include extra low-rise office buildings.

Mr Richard Hatter, a director, said that the new proposals would halve the amount of traffic generated by the site. The new plan was approved in principle by Westminster City Council planning committee on Tuesday.

Jewellery weakens

THE jewellery market, which has remained fairly resilient this year, has weakened in the run-up to Christmas as a result of poll tax, according to Verdict Research, the retail consultants.

The imposition of the tax has particularly cut into the spending of the group aged between 18 and 25, the traditional mainstay of the fashion jewellery market, the report suggests.

Even so, the jewellery market is expected to grow in 1990 by 8.2 per cent to £2.6bn.

Verdict on Jewellery, Verdict Research, 112 High Holborn, London WC1V 6JS. £595.

Sharp drop in occupancy affects London hotels

By David Churchill, Leisure Industries Correspondent

HOTELS in London are suffering from a sharp drop in visitors from the US as a result of the strength of sterling against the dollar and concern caused by the Gulf crisis.

The fall in occupancy has come at a bad time for the hotel sector, already facing difficulties because of the recession. It will coincide with the opening next month of the refurbished Dorchester Hotel in Park Lane, London, and the opening in spring 1991 of the Langham Hilton hotel close to Oxford Circus.

With bookings already down and fears of an even worse level after Christmas, some London hotels are already taking steps to encourage visitors. Several are considering offering American guests a fixed exchange rate when booking to counter fears that sterling will become even stronger.

Others, such as Savoy Group, are launching special promotions. The Savoy is from today offering a £125 voucher for every reservation at the Savoy, Claridge's, and Berkeley hotels from next month until the end of next April.

Mr Peter Bates, Savoy Group's marketing director, said yesterday that the move was aimed at reducing costs for business travellers.

He said it gave better value than fixed exchange rates.

DTI's office politics enrages furniture makers

Peter Lilley is accused of an 'unpatriotic' procurement decision, reports **Emma Tucker**

A SMALL BAND of British manufacturers is furiously branding the Department of Trade and Industry as unpatriotic.

The outcry comes from suppliers of office furniture who have seen a £2.25m contract to furnish the department's new offices in Buckingham Palace Road, London, go to Voko – Germany's leading office equipment specialist based in Polheim, near Frankfurt. Although its European operations are extensive, Voko, which has a turnover of about £150m, has never supplied the DTI before.

Once the DTI's decision became known, Mr Peter Lilley, trade and industry secretary, was labelled "unpatriotic" by opposition MPs. Mr Douglas Henderson, Labour MP for Newcastle upon Tyne North, described the decision as an "unbelievable" snub to British industry.

The DTI's shortlist of eight bids for the contract included three British companies.

The DTI said that in awarding the contract it followed the rules which ensure against restrictive trade practices.

"We follow the same rules as any public body in Europe," said the DTI. "In the long run, the British firms did not come up with the right product at the right price."

According to the Treasury, every government department aims to secure value for money by putting a contract out to tender and choosing the lowest offer.

In the process, however, the criteria must fall into line with EC requirements on public procurement which stipulate that EC countries must be able to compete for the tender on an equal basis with those based in Britain.

That explanation has failed to satisfy Project Offices, one of the British companies shortlisted. It described the decision as a "kick in the teeth" for British industry from the government body that was supposed to support it.

The Economics Ministry in Bonn said that when German government bodies place large orders, they are obliged to look at tenders from suppliers inside and outside Germany. The ministry added, however, that German enterprises have priority with smaller orders.

An official did not know whether that was a general principle or because it was easier and cheaper to use companies in the neighbourhood.

Mr Bob Steel, managing director of Bullough, Project's parent company, said: "It is depressing for British industrialists that their own government seems to be so far in advance of its European counterparts in its determination to level the field for imported products."

At Flexiform, another of the British companies shortlisted, spirits are equally low. "We were hopeful that because we were the suppliers of quite a large amount of business to the DTI recently, we would win the larger contract," said Mr Peter Hetherington, the sales and marketing director.

He added that the company was especially disappointed because it had met British standards for quality assurance, many of which went beyond the standards being laid down in the EC directive on office environments.

The only British company to applaud the DTI's decision appears to be Communications Complex Design, a design and ergonomics consultancy.

"It is no surprise at all to hear that German companies, which have always been sound on ergonomics, have won this contract," said Mr Christopher Moorey, the design director.

"Unfortunately, few British companies have any understanding of ergonomics or any appreciation of good human-factors design," Mr Moorey added.

The discontent over an apparent lack of "buy British" policies by official bodies is by no means unprecedented.

There was similar distress when a tender for new china at the House of Commons was awarded to Rosenthal, a German manufacturer.

Mr John Smillie, general manager of the Commons refreshments department, who ordered the china, says that at the time many in the House of Commons were "shell-shocked" that a foreign company had won. "The fact that these people were in the common market didn't seem to mean anything," said Mr Smillie, who now presides over a stock of British china, the last tender having gone to Wedgwood.

APPOINTMENTS

Changes at Hudson Place

■ HUDSON PLACE INVESTMENTS, parent company of Air Europe and International Leisure Group has made the following changes. Mr Hugh Parry *(pictured)* becomes chairman

of subsidiary Aircraft Leasing & Management. He was group finance director, and remains on the parent board. He is succeeded as group finance director by Mr Robert Mackenzie who was finance director of Storehouse. Mr Mackenzie will also be responsible for corporate development. Joining the parent board are Mr Peter Long, chief executive of ILG Travel, and Mr Rod Lynch, *managing director of Air Europe*. Mr Robert Smith, previously director of corporate development, has resigned to pursue other interests.

■ DEVONSHIRE UNDERWRITING AGENCIES has appointed Mr Gordon McIntosh as joint deputy underwriter of non-marine syndicate 216, known as C.H. Bohling & Others.

■ TINSLEY ROBOR has appointed Mr Shaun Lawson as a non-executive director.

■ Dr Fred Brown has been appointed a director of OXFORD VIROLOGY.

■ CANNON STREET INVESTMENTS has appointed Mr Robin Binks as group managing director. He was a director of S.G. Warburg & Co. Mr Ian Pratt has been appointed deputy managing director, and Mr Chris Gordon, a director of Cannon Street Leisure, has been appointed a non-executive director. Mr John Parry ceases to be a director.

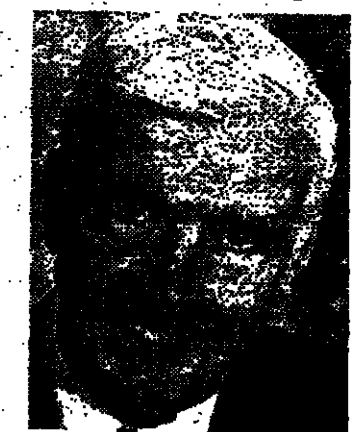
■ HENDERSON VENTURE MANAGERS has appointed to the board Mr Ian Menzies, who was business development manager at 3i; and Mr Stephen Welton, who joins on December 3, was head of acquisition finance, Security Pacific Eurofinance. The company is a new subsidiary of Henderson Administration Group.

■ Following the acquistion of H.T. Hughes by the LEIGH GROUP, Mr R.D. Merrick has been appointed a director of the group.

■ PRODUCE IMPORTERS (ALLIANCE) has promoted Mr Stephen Haslett to trading director, responsible for both branded and own label goods.

■ Mr Martyn Clamp has been appointed deputy managing director of Ibstock Johnsen's subsidiary, IBSTOCK BUILDING PRODUCTS. He was formerly operations director.

■ Mr Michael Mallinson has been appointed a non-executive director of PROPERTY & FINANCIAL SERVICES, the holding company for the property services division of Carlisle Group. He was previously a director of Prudential Portfolio Managers.



Mr Bill Kiely *(pictured)* has been made managing director of RAYCHEM, based in Swindon. He is a vice president of Raychem Corporation and general manager of the company's European electronics division. Mr Kiely is now also responsible for all UK activities of Raychem.

■ GRANADA COMPUTER SERVICES (UK), an independent computer maintenance company, has appointed Mr Mark Forbes as financial director. He has been financial director with W.J. Oldacre, a subsidiary of Unigate, since 1987.

■ Mr Bruce Armstrong has become financial controller at CO-ORDINATED LAND & ESTATES with responsibility for managing all financial aspects of the company's development and investment activities. He joins from the Bond Corporation (UK) where he was financial controller, and was responsible for winding down operations in the UK and Europe.

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LEGAL COLUMN

Developing management capability for the 1990s

By David Temporal

ARE LAWYERS relinquishing control of their firms in favour of "professional" managers? The growing trend among law firms to employ professional managers is not in itself a new phenomenon. But now an increasing number of appointments are being made to senior positions.

The new roles go under various guises, such as chief executive, director of finance or director of business development. These roles are critical in shaping the future direction of a firm and, potentially, carry a significant amount of power. In the past firms would allow only partners to play such an influential role.

Many of the firms which have embarked along the route of employing senior managers have found it difficult to integrate them. and have not gained the real benefits from their investment. Much of the reason for this lies in the perception many lawyers have about "management" and the role that managers should be playing within a firm.

The pressure on leading firms to employ professional managers in senior roles is clear. The rapid growth in demand for legal services, and the resulting increased size and diversity of law firms, has forced them to examine critically the capabilities they require to manage larger organisations operating in a competitive market.

A major challenge facing many firms is to achieve a more control over their enlarged organisation while maintaining enough of the partnership's values, including partner autonomy.

The danger is that in exercising too much centralised control a firm can be seen as a bureaucratic monolith, no longer responsive to clients and changing competitive pressures, and not motivating for partners and staff. In many ways some of the larger accountancy firms are a testimony to the consequences of too bureaucratic a style.

To meet this challenge firms must enhance their traditional management skills and develop new capabilities that enable them to manage both size and diversity while retaining the best elements of their partnership's culture.

Awareness of the need for this capability is likely to become more pronounced over the next couple of years as competition between firms continues to intensify and the benefits that can flow from high-calibre management become apparent by observing the progress of those firms which achieve it.

Many firms have recognised the need to enhance their management skills but have not defined the capability required nor fully considered how best to achieve the enhancement.

Relying on imported managers to develop the required management capability is only one option and it is a high-risk one at that. The risk can be reduced, however, by moving the organisation to a more highly skilled management environment in a planned way.

A key issue in this transition is to manage the attitudes and expectations of partners to the role of a manager. Many lawyers encounter management principally through control systems, such as time-recording. Fee-earners are regularly required to complete time-sheets and a great deal of stick rather than carrot is used to ensure that it is done.

Management is therefore perceived as autocratic administration. In this way not only is the role of the manager devalued but many lawyers have come to hold the view that management does little more than distract them from their real job of practising law; or put another way, management does not help them do a better job for their client, rather the reverse.

It is often the case that some lawyers are only too ready to unload all of their managerial responsibilities onto the new manager, as if management is an activity which can continue in isolation.

The introduction of professional managers into firms, as the accountants discovered in the early 1980s, brings tension as two ideologies collide.

Partnerships are extremely complex organisations, much more so than other kinds of organisation of comparable size. Experience as a manager in a corporate environment cannot be translated directly into good partnership management. This makes partnerships particularly difficult organisations for outsiders to enter in a senior role.

For a non-partner to gain acceptance and to be in a position to exert management control over partners is a challenging and often painful exercise – for both parties. Deep-rooted ownership issues in partnerships can make it emotionally difficult for a partner to accept management by a non-lawyer.

A sense of high risk, coupled with the ideas many lawyers have about managers, makes it problematic for the manager to develop the necessary trust and credibility.

For law firms to benefit from the added insights that good managers can provide, they must develop a better understanding of the role of management in the firm, in particular the way in which it can help support fee-earners in their tasks.

This understanding must be developed against the backdrop of the competitive environment of the 1990s and an analysis of the impact that client demand and competitive pressures will make on their firms.

One of the key strategic issues facing many firms is expansion into European markets. This will no doubt involve many firms developing closer working relationships with foreign law firms. The difficulties of managing a programme of expansion of this nature is not only plagued by the traditional problems of negotiating new working relationships, but is complicated by the added differences of national cultures.

The ability of firms to maintain those valuable differences and enjoy the benefits of the creativity which flows from them, while providing a common purpose, will require a high level management skill. The skills of management control will no longer suffice. Firms need to develop capabilities to integrate and direct their different component parts in such a way that the output achieved for the firm is greater than merely the sum of its parts.

The role of the right manager will be critical in achieving these aims. The hiring of people into senior management roles is more likely to be a success when:

- The firm has previously developed a reasonably clear view of where and how it wants to compete in the marketplace in the next three to four years.
- An effective management structure is already in place and the decision-making points are known and accepted.
- Partners accept responsibility for managing their own areas of work and are not likely to abdicate responsibility when the "professional" arrives.
- The challenges to be faced in the next few years are known, understood and accepted, which leads to much greater respect for the skills that people from outside can bring into the firm.

Addressing the issues of strategic direction and organisation, and hiring the right manager are only parts of the equation. In addition, the people entering the firm must be given tremendous support by senior partners and given time to "find their feet".

More and more firms are coming to realise that those most likely to succeed in the turbulent environment of the next decade are those firms who possess high-level management skills and use them effectively. This will be a primary distinguishing factor between law firms in the 1990s with regard to their ability to compete in the marketplace.

The author is a partner in Hodgart Temporal & Co, management consultants.

UK NEWS

Exchange warns stockmarket tha it faces break-u

By Richard Waters

THE LONDON Stock Exchange could preside over a break-up of the UK's central stockmarket if it does not pay more attention to the stockbrokers who act for private individuals, according an internal exchange strategy paper.

The unpublished document, A *Strategy for the Private Client Market*, warns that, unless the problems faced by private client stockbrokers can be solved, brokers could take their client's business elsewhere.

"Our major concern is that this dissatisfaction will lead to an initiative to set up an alternative retail market," warn the authors of the paper, produced by the exchange's trading markets division.

They add: "The consequences of this would be serious. It would give rise to market fragmentation and the possible disintegration of the overall demestic market."

According to the paper, all the private client brokers contacted as part of an opinion survey said the exchange had ignored them. It had concentrated only on the needs of large, institutional investors.

Private clients are an important source of income for exchange members, bringing in 47 per cent of all their commission revenue.

The stock exchange has tried to deflect criticism by promoting the creation of a new trade association, the Association of Private Client Investment Managers and Stockbrokers, to represent the interests of private client brokers.

However, the survey found that only 28 per cent thought the association was "important and necessary". Rather, "the vast majority of brokers wanted to increase the strength of the 'retail' voice" in the exchange's decision-making process.

The paper says private client brokers are suffering from a lack of growth in their market, as individuals continue to stay away from the stockmarket. They are also being damaged by fierce price competition and escalating costs.

The final straw, many kers fear, will be the intr tion of automated settle through Taurus, due t phased in from next autu

The strategy paper lays n number of steps that e exchange plans to tak to attract private investors the stockmarket and improv the lot of stockbrokers. ese include:

- Lowering costs. The igh trading costs faced by all investors make it difficu for them to make a prof on equity investment, the per acknowledges. The au ors say: "We will review the ole process and timetable for rad-ing and settlement, to r uce the cost and risk of tradin for all parties." However, hey give little indication of how this will be done.
- A "long-term public infor-mation programme", under-taken in association with bro-kers. This is intended, in part, to reverse the image, perceived by a majority of brokers, that "the industry appears unap-proachable and has an unfortu-nate 'casino' image."
- The possible introduction of new "basket" investments, to enable small investors to spread their risks among a number of stocks without going through a collective *investment vehicle like a unit* trust. Investors would buy a pre-determined collection of shares in a single trade, giving them an instant portfolio.
- Boosting the value of mem-bership of the exchange and The Securities Association. Membership of these bodies brings few advantages, brokers complain, and fails to give them a perceived edge over other financial intermediaries, such as members of the Fimbra (the Financial Intermediaries Managers and Brokers Regula-tory Association). One way of adding to the value of stock exchange membership would be through an optional "top-up" compensation scheme, to give a higher level of protection to customers than is available under the existing Investors' Compensation Scheme.

Japanese plant staff put hard work first

By John Gapper, Labour Editor

WORKERS in Japanese plants in Britain are more likely to regard hard work as the best means of promotion, and be less enthusiastic about trade unions than their counterparts in British-owned plants, a study has found.

White-collar workers in Japanese plants overwhelmingly cited hard work as the best means of advancement. Those in two UK plants believed willingness to take on responsibility was the most important factor.

Of the blue-collar workers in the six Japanese inward investment plants, 69 per cent were either against unions having a role in investment decisions, or were indifferent to the idea. In the two British plants, the figure was 44 per cent.

The study by the Jim Conway Foundation, a union-backed research centre, compared the attitudes of workers in Japanese plants with those employed in two British plants. The UK companies studied have a tradition of paternalistic management and information-sharing.

In the British plants, no white-collar workers thought long service or good relations with management were important factors for promotion. But 29 per cent of those in Japa nese companies cited the sec ond.

About the same proportion – 28 per cent in Japanese and 27 per cent in British plants – thought they were offered enough opportunity for advancement. However, 9 per cent in British plants com plained about a lack of access to higher education.

More of the British workers – 74 per cent compared with 67 percent in Japanese plants – thought they were suffi ciently well informed by the company.

The proportions for white-ollar staff were 91 per cent in British plants and per cent in the Japanese.

Far higher proportions in Japanese plants did not know or had not thought about the subject when asked about the role of unions. These categ ries accunted for 12 per cent of white-ollar and 38 per cent of manua workers.

Worke in the British plan were als more enthusiast about unns being consult as worke representatives investme decisions. Half the man l workers in t British pnts supported t idea, conared with 28 p cent in Janese plants.

Women fail to brach top ranks of the civil ervice

By Michael Smith, Labour Corresponder

A SIX-YEAR programme to achieve equality of opportunity for women in the civil service has failed to raise significantly the number of women in the top three grades, a government report shows.

At the top, Grade 1, level only one of the 38 incumbents last year was a woman. Although that is better than six years ago, when there were none, the proportion of women in Grades 2 and 3 is down.

At Grade 2 level, there were four women, representing 3 per cent of the total, against 4 per cent in 1984. At Grade 3, there were 32 women last year, which at 5 per cent of the total is the same as six years ago.

There are signs of some improvement for the future in the top grades. Lower down the management scale there are significant increases in the proportion of women.

At grade 5, the proportion of women rose from 7 to 10 per cent between 1984 and 1989. At executive officer level, the figure rose from 29 to 39 per cent.

At the bom of the scle, women ou mber men by three to one

Measures med at improv-ing career portunities for women in civil service have include e promotion of part-time wking and job-sharing, as ll as holiday play-scheme nurseries and career break emes.

In spite of se initiatives, the resignat rate among women rema considerably higher than for men. In 1982-3, 74 per t of all resig-nations were om women, compared wit per cent in 1988-9. The re says the gap is of "some co rn".

The report ws attention to the higher motion rates among men. It ys the range of work is vital career devel-opment. "The idence sug-gests that ce n areas of work are still s as jobs for men. This does necessarily suggest discrimin on. Women themselves ma e them as 'men's jobs' and ose not to work in these a ."

THE WEEK AHEAD

ECONOMICS

Focus begins to move from UK

UK POLITICAL and economic analysts will inevitably focus their attention on the continuing political drama in Britain this week, but world financial markets will be more concerned with developments in the Gulf and this week's US and Japanese economic figures.

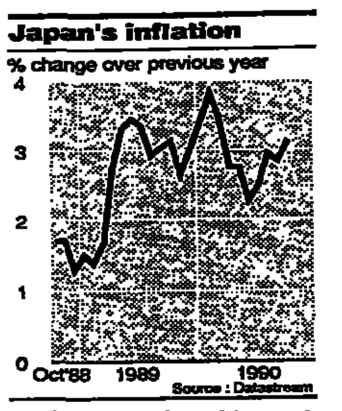
Tomorrow sees the second round of the ballot for the Conservative party leadership. Michael Heseltine, the former defence secretary who quit the government in 1986, John Major, the chancellor, and Douglas Hurd, the foreign secretary, are in the running to succeed Mrs Thatcher as prime minister.

In this round, the winner has to be elected by more than than 50 per cent of the 372 Tory MPs qualified to vote. If there is no outright winner, a third ballot will be held on Thursday by transferable vote to ensure that a winner emerges.

By then markets should have a better idea of how the US economy is faring. Updated figures for gross national product in the third quarter are due on Wednesday.

Japan's inflation

% change over previous year



Source: Datastream

Other data due this week include US leading indicators for October on Friday and income and consumption figures on Thursday.

In Japan, the October inflation figures, to be released on Friday, may provide further indications concerning future Japanese interest rates. The Bank of Japan has taken a strong stance against inflation throughout this year, and is not expected to relax its tight monetary stance until inflation has started to subside.

The latest inflation rate is expected to show some further upward drift from last month's annual rate of 3.0 per cent.

Other statistics and events (with consensus forecasts from business information group MMS International except for the US where they have been provided by IDEA), include:

Today: UK, Mr Norman Lamont, the Chief Secretary to the Treasury, gives evidence to the Treasury and Civil Service Select Committee on the public expenditure aspects of the Autumn Statement.

Tomorrow: UK, Conservative party leadership election, second ballot.

Wednesday: UK, Mr John Major the Chancellor of the Exchequer gives evidence to the Treasury and Civil Service Select Committee, new vehicle registrations in October. US, GNP, preliminary third quarter (up 1.6 per cent) and GNP deflator (up 3.6 per cent), corporate profits in third quarter after tax, durable goods orders in October (down 0.5 per cent). Japan, Retail sales in October (up annual 6.6 per cent), industrial production in October, provisional (up 4.0 per cent).

Thursday: UK, family expenditure survey, 1989, third Conservative party leadership ballot if necessary. US, personal income in October (up 0.1 per cent), personal consumption expenditure in October (up 0.2 per cent), monetary indicators. Germany, fortnightly Bundesbank council meeting. France, consumer price index in October (up 0.5 per cent, annual up 3.8 per cent).

Friday: US, October leading indicators (down 0.5 per cent). Japan, consumer price index in October, Tokyo consumer price index for November (up annual 3.5 per cent), housing starts in October (unchanged on annual basis), unemployment rate, trade balance and current account for October.

Expected during the week: Germany, preliminary cost of living (up 0.3 per cent, annual 3.6 per cent), import prices in October (up 0.5 per cent, annual 0.3 per cent).

Edward Balls

UK COMPANIES

THE CITY is bracing itself for a steep descent into loss by Rosehaugh, the property developer headed by Mr Godfrey Bradman, following heavy write-offs by its retail and residential subsidiaries. The results for the year to June, which will be announced on Tuesday, are expected to show pre-tax losses of around £150m compared with pre-tax profits last year of £36.1m.

Thursday's announcement of MEPC's results for the year to September 30, which are expected to show pre-tax profits of £150m (£127.5m), are also awaited with interest. They will reveal the extent of the fall in its asset values, which may be as far as 750p (881p).

Argyll, the food retailer which owns the Safeway and Lo-Cost grocery stores, is likely to announce a healthy increase in pre-tax profits when it releases its interim results on Tuesday. Analysts expect to see taxable profits rise to about £140m, representing a 30 per cent uplift.

With help from US acquisitions, Tate & Lyle, the sweeteners group, is expected to announce a pre-tax profit increase from £200m to between £215m and £220m, on Wednesday. While the year to September 30 will not have been much affected by the weakening of the dollar, that is a concern for this year. However, it is hoped the group will have halved its gearing from last year's 160 per cent.

First-half results on Tuesday from Allied-Lyons, the drinks and food group, are expected to show profits up by around 8 per cent to £282m.

Tentative forecasts in the range £80m to £90m are being made for the interim pre-tax profits of Maxwell Communication Corporation, Mr Robert Maxwell's publishing group which reports on Wednesday.

Whatever the change from the previous £85m, interest will focus on how the total is made up: for instance, what was the actual trading profit and how will disposals be accounted for? It is hoped debt will be down from the year-end's £2.1bn, helped by the weakening of the dollar.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Haggas (John), Keighley, W.Yorks., 11.00
Murray Ventures, 7 West Nile Street, Glasgow, 10.30
Tay Homes, Hilton Intl. Hotel, Neville Street, Leeds, 2.30
BOARD MEETINGS:
Finals:
Fairline Boats
Guinness Mahon
Young (H.)
Interims:
Carroll (P.J.)
Lees (John J.)
Marston, Thompson & Evershed
Merrydown Wines
Northumbrian Water
Scottish & Merc. Inv. Tst.
Vibroplant

■ TOMORROW
COMPANY MEETINGS:
Barry Wehmiller Intl., S.G. Warburg Securities, 1 Finsbury Avenue, E.C., 12.00
BOARD MEETINGS:
Finals:
Anglo-Scandinavian Inv Tst
Apollo Metals
Radio City (Sound of Mer.)
Rosehaugh
Interims:
Allied-Lyons
Alphameric
Antares
Argyll
Christie Group
Europa Minerals
Hambros
Hewetson
Northern Foods
Southnews
Wagon Indl.
Walker & Staff

■ WEDNESDAY NOVEMBER 28
COMPANY MEETINGS:
Domestic & General, 18 St. Mary-at-Hill, E.C., 11.30
Microfilm Reprographics, 3 Cloth Street, E.C., 12.00
BOARD MEETINGS:
Finals:
ABI Leisure
Dunedin Worldwide Tst.
Kwik-Save
Turkey Tst.
Wescol
Interims:
Alba
Bexbuild Developments
Caledonia Invs.
Johnson Matthey
Lyons Irish Hldgs.
Maxwell Communications
NSM
Northwest Water
Optometrics Corp.
Shanks & McEwan
Tate & Lyle
Trimoco
Verson Intl.

■ THURSDAY NOVEMBER 29
COMPANY MEETINGS:
AB Electronic Products, St. David's Hall, Cardiff, 12.00
Bolton Group, 334A Goswell Road, E.C., 11.00
Lucas Inds., NEC, Birmingham, 12.00
Paterson Zochonis, Holiday Inn, Peter Street, Manchester, 12.00
BOARD MEETINGS:
Finals:
Capital Radio
MEPC
Royal Bank of Scotland
Scottish Inv. Tst.
Sidlaw
Southwest Water
Interims:
Castings
Dawson Intl.
Hunter Saphir
Jarvis Porter
Kembrey
Mountview Estates
Osborne & Little
Penny & Giles Intl.
Premier Cons. Oilfields
Stocklake
Vosper Thornycroft

■ FRIDAY NOVEMBER 30
COMPANY MEETINGS:
Halstead (James), Holiday Inn, Peter Street, Manchester, 12.00
Pochin's, Brooks Lane, Middlewich, Cheshire, 12.00
BOARD MEETINGS:
Finals:
Control Techniques
United Drug
Interims:
European Colour
Kitty Little
Stoddard Sekers Intl.
Vistec
Xtra-Vision

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Atlas Convertg Equipment 6.5p
Clarkson (Horace) 2.75p
Dauphin 1.7p
Gent (S.R.) 1.75p
Glaxo Hldgs. 15p
Green (Ernest) 4.25p
Haggas (John) 1p
Isotron 2.07p
Maunders (John) 2.65p
Sirdar 3.5p
Suter 3.2p

■ TOMORROW
Bryant 3.4p
Tay Homes 3.6p

■ WEDNESDAY NOVEMBER 28
BLP 0.25p
BTR 7p
Broken Hill Prop. 19.5cts.
City of Oxford Inv. Tst. 1.05p
FAI Insurances 4cts.
Lawson Mardon Class A Sub. Vtg. 10cts.
Minerals Oils & Res. Shs. Fund 25cts.
Murray Ventures 6.1p
Tesco 1.7p
Watts, Blake, Bearne 2.7p

■ THURSDAY NOVEMBER 29
BM 1.4p
British & Amer. Film 3p
Creston 0.3p
Investors in Industry Intl. £37.97
Ladbroke 4.68p
Morgan (J.P.) Int. Finance NV Gtd. Fltg. Rate Nts. 1997 $217.22
Murray Intl. Tst. 2.28p
Paterson-Zochonis 7.4p
Do. "A" NV 7.4p
Prudential Corp. 3.5p
Steetley 5p

■ FRIDAY NOVEMBER 30
AB Electronic Prods. 13.5p
Adscene 7¾% Cnv. Prf. 3.875p
Allied Leisure 2.8p
Allied-Lyons 7½% Prf. 2.625p
Do. 5½% Prf. 1.925p
Automated Security 6% Prf. 3p
BMSS 2p
BNB Resources 1.5p
BTR Nylex 5.25cts.
Bankers Inv. Tst. 0.66p
Do. 3.5% Prf. 1.75p
Bradford & Bingley Bldg. Society Fltg. Rate Nts. 1994 £376.31
Brierley Invs. 6cts.
Bristol (City of) 11½% Stk. 2008 5.75pc.
British Alcan Aluminium 10⅜% Deb. Stk. 2011 5.1875pc.
Bryant 8% Prf. 2.8p
Canning (W.) 7½% Uns. Ln. Stk. 88/93 3.75pc.
Caparo Inds. 1.5p
Do. 8% Prf. 4.2p
Carbo 2.8p
Citygrove 7.75% Cnv. Red Prf. 3.875p
Conder 0.3p
Cussins Property 3.75p
Delyn Packaging 0.45p
Dunlop Plants 6% Prf. 2.1p
Electric & Genl. Inv. 10¾% Deb. Stk. 2011 5.375pc.
Fifth Throgmorton 7.25% Cnv. Uns. Ln. Stk. 2003 3.625pc.
Gencor 26cts.
Glasgow Inc. Tst. 0.8p
Goodhead 7% Cnv. Prf. 3.5p
Greene King 6¼% Uns. Ln. Stk. 88/93 3.125pc.
Guildehouse 0.1p
HTV 1.5p
Hampden Homecare 0.2p
Hays 2.35p
Hopkinsons 1.2p
House of Lerose 3p
INSTEM 1.2p
ISA Intl. 0.414p
Jackson Grp. 1p
Jove Inv. Tst. 3.45p
London & European 10½% Uns. Ln. 1993 5.25pc.
Metsec 2.7p
Mexico Fund 4.65cts.
Minstergate 10% Prf. 5p
Paterson-Zoch. 10% Prf. 5p
Do. 7½% Prf. 3.75p
Peel Hldgs. 5.25% Cnv. NV Prf. 2.625p
Plastiseal 1.5p
Ricardo 3.8p
Rosehaugh Greycoat Estates 11% 1st Mtg. Deb. 2014 5.5pc.
Roskel 1.3p
Russell (Alexander) 1p
Sainsbury (J.) 6½% 1st Mtg. Deb. 88/93 3.25pc.
St. Mowden Props. 8.5% 2nd Prf. 4.25p
Scottish Television 6.75p
Senior Engineering 1.88p
Sterling Publishing Cnv. Prf. 3.13872p
Stoddard Sekers Intl. 4% Prf. 2p
T & S Stores 2p
TR City of London Tst. 1.14p
Thurgar Bardex 0.85p
Wade Potteries 10% Prf. 5p

■ SATURDAY DECEMBER 1
Agricultural Mortgage Corp. 4½% Deb. 81/91 2.25pc.
CNA Gallo 5% Prf. 2.5p
Cater Allen 5% Prf. 1.75p
Do. 4.2% 2nd Prf. 2.1p
Dares Estates 10¼% 1st Mtg. Deb. Stk. 2012 5.125pc.
Foreign & Colonial Inv. Tst. 7¼% Deb. 89/94 3.625pc.
Do. 4¼% Perp. Deb. 2.125pc.
General Cons. Inv. Tst. 4¼% "A" Prf. 1.4875p
Govett Oriental Inv. Tst. 0.75p
Do. 5% Prf. 1.75p
Hambros Inv. Tst. 3½% Prf. 1.225p
Illingworth Morris (Saltaire) 7% Prf 1.225p
Jones (A.) 6½% Prf. 2.275p
Law Debenture 4½% Deb. 2.25pc.
Lombard North Central 6% 1st Prf. 2.1p
Do. 5% 2nd Prf. 1.75p
Microfilm 3p
Monsanto 5% Gtd. Ln. 92/97 2.5pc.
Do. 6¼% Gtd. Ln. 92/97 3.125pc.
Murray Smaller Markets Tst. 1.2p
M & G Intl. Income 2.132p
Perry 2.75p
RPH 4% Prf. 1.4p
Do. 8% Prf. 2.8p
Reed Intl. 4½% Prf. 1.575p
Do. 5½% Prf. 1.925p
Southampton Harbour Board 6¾% Red Stk. 85/90 3.375pc.
Sun Alliance 5p
Union Carbide 25cts.
Whitbread 6¼% Deb. 87/92 3.125pc.
Do. 6½% Deb. 86/91 3.24pc.

PARLIAMENTARY DIARY

■ TODAY

Commons: Statutory Sick Pay Bill, 2nd Reading. Motion on the Civil Jurisdiction and Judgments Act 1982 (Amendment) Order.

Select committees:
Public accounts – subject, St Helena Ship. Witness: T.P.Lankester, Overseas Development Administration (Room 16, 4.30 pm).
Treasury and Civil Service – subject, 1990 Autumn Statement. Witness: Rt Hon Norman Lamont, MP, Chief Secretary to the Treasury (Room 8, 4.30 pm).

■ TOMORROW

Commons: School Teachers' Pay and Conditions Bill, 2nd reading. Motion on the Teachers' Pay and Conditions Act 1987 (Continuation) Order.

Lords: Planning and Compensation Bill, 2nd reading.

■ WEDNESDAY

Commons: Statutory Sick Pay Bill, Committee and remaining stages. Development Board for Rural Wales Bill, 2nd reading. Debate on EC document relating to authorised tobacco advertising.

Lords: Debate on Fraud in the European Communities. Debate on the Future of the Commonwealth. Motion on the Code of Local Government Audit practice for England and Wales. Question to the Government on the exploitation of overseas workers.

Select committees:
Environment – subject, Indoor pollution. Witness: Chartered Institution of Building Services Engineers (Room 21, 10.30 am).
Trade and Industry – subject, British Steel: Ravenscraig and Clydesdale. Witnesses: Shop stewards committees (Room 15, 11.00 am).
Home Affairs – subject, Policing Football Hooliganism. Witnesses: Rt Hon Earl Ferrers, Home Office Minister of State and representatives from the Football Licensing Authority (Room 15, 2.00 pm).
Agriculture – subject, Commodity Markets in the 1990s: Cereals. Witness: Home Grown Cereals Authority (Room 21, 3.45 pm)
Defence – subject, Royal Navy Aspects of the Options for Change proposals. Witness: MoD officials (Room 8, 4:15 pm).
Employment – subject, Disability and Employment. Witnesses: MIND, Remploy Ltd, British Council of Organisations of Disabled People, voluntary organisations for anti-discrimination legislation and employers' forum on disability (Room 20, 4.15 pm).
Public Accounts – subject, Northern Ireland Audit Office estimates. Witnesses: Comptroller and Auditor General and the Comptroller and Auditor General for Northern Ireland (Room 16, 4:15 pm).
Treasury and Civil Service – subject, The 1990 Autumn Statement. Witness: Chancellor of the Exchequer (Grand Committee Room, Westminster Hall, 4.30 pm).

■ THURSDAY

Commons: Development Board for Rural Wales Bill, Committee and remaining stages. Proceedings on the Import and Export Control Bill. Motion on EC document on controls over possession of weapons.

Lords: Maintenance Enforcement Bill, 2nd reading. Namibia Bill, 2nd reading. Motion on Ministerial and Other Salaries Order 1990. Question to Government on action to ensure British charities can play a full role in Europe.

■ FRIDAY

Commons: Private Members' motions.

CONSTRUCTION CONTRACTS

Major Kent roads project

BALFOUR BEATTY CIVIL ENGINEERING has been awarded the £27.3m A20 Folkestone - Court Wood contract 1 by the Department of Transport.

The works, due to be completed in the spring of 1993, are located between the Holywell Coombe area and Court Wood, bypassing the village of Capel-le-Ferne in Kent.

The contract comprises the construction of 6km dual two-lane carriageway, including four overbridges and four underbridges and twin two-lane road tunnels, each 400 metres long.

The access to the south portals of the tunnels will be built adjacent to Trans-Manche Link's cut-and-cover tunnel at Holywell.

Aluminium smelter expansion scheme

CLEVELAND BRIDGE & ENGINEERING MIDDLE EAST, part of the construction division of Trafalgar House, has been awarded a £20m contract for the construction of the potline buildings for the potline 4 expansion at Aluminium Bahrain.

The project calls for 12,000 tonnes of structural steel cladding, roof ventilators, lighting and masonry walls for two smelter buildings, each almost one kilometre long.

It is believed that this development will provide the company with the largest operating potlines in the world.

Steelwork fabrication will be carried out at the company's factory in Dubai and erection will be completed in October 1991.

£20m orders awarded to Hall & Tawse

Raine Industries' subsidiary HALL & TAWSE GROUP has clinched nearly £20m worth of new contracts. The major slice of new business has been won by Hall & Tawse Scotland with £10m of contracts.

They include a £3.8m contract with Heriot Watt University in Edinburgh to build a three and four-storey accommodation block for students and a £1.7m contract for the second phase of a community renewal project at Prospecthill, Glasgow.

Hall & Tawse Western has won contracts worth more than £8m, including a £2.75m project at the TSB Group management college in Solihull, west Midlands, to extend amenities to include 36 study bedrooms, a recreation area, lecture facilities and car parking.

Hall & Tawse Eastern's contract wins, totalling £2.4m, include a £1.2m contract for a new clinical research centre at Leicester General Hospital for Huntingdon International Holdings which is due for completion next July.

Building office facilities in Barbados

An artist's model of the National Insurance Buildings project in Bridgetown, Barbados

HIGGS AND HILL CARIBBEAN has won two contracts for the construction of office buildings for The Barbados National Bank and the National Insurance Company in Bridgetown. The value of the work is in excess of £12m.

The contract, awarded by The Barbados National Bank, is for a five-storey building containing a bank and offices in Bridgetown, Barbados.

The structure will have a reinforced concrete frame on piled foundations together - with internal blockwork walls. An existing 600mm thick party wall is to be retained and will be supported during the construction of the new frame.

On completion, it will provide around 40,000 sq ft of air conditioned office accommodation.

The company is also to construct a part four-storey, part six-storey, office building for The National Insurance Company.

The building will comprise a reinforced concrete frame on traditional foundations with infill concrete blockwork walls. It will be clad with a proprietary aluminium cladding system.

The completed office building will provide some 80,000 sq ft of air conditioned accommodation with lifts serving all floors.

Upgrading offices in Victoria

Two contracts awarded to the WILTSHIER GROUP bring the total of new orders recently received by the company to £10.4m. Work has started on Esso House in London's Victoria Street, SW1. The £5.4m contract, placed with Wiltshier Construction, comprises the refurbishment of the first seven floors of the office building. The project includes new suspended ceilings, partitions and updated mechanical and electrical fittings.

In Canterbury, a new town centre shopping development will be built by Wiltshier Southern. Worth nearly £5m, it will take eighteen months to complete the project for Ravenseft Securities - a subsidiary of Land Securities. Called "Longmarket", the development will be built around a museum constructed to house Roman mosaics.

* * *

WALLIS WESTERN, part of Beazer Construction, has won contracts worth a total of £4.5m. Two design and build contracts are for the Welsh Development Agency and include a 50,000 sq ft factory at Treforest and two 20,000 sq ft high-technology units at Llantarnam Park, Cwmbran.

* * *

TRENTHAM, the construction arm of Egerton Trust, has won two contracts from major clients. Heathrow Airport has awarded the company a £1.3m civil engineering contract to build a long-term car park with 2,000 spaces in Cranford Lane. Smiths Crisps has placed a 13-week £510,000 contract for fitting out a new unit in Theale.

* * *

WILCON CONSTRUCTION has won a £1.8m contract to build a sports hall, a maths block and to refurbish both the main and science blocks at Moulton comprehensive school. Work is scheduled for completion in 1991.

Britain's training compares badly with that of its industrial competitors. But ground lost is expected to be recovered by a network of government-backed, employer-led Training and Enterprise Councils. A regular series begins today by examining their progress

An urgent need to turn the tide of history

By Lisa Wood and John Gapper

Tim Evans, one of the business leaders embarking on Britain's biggest training shake-up for 25 years, does not underestimate the task. "The problem of failure to invest in training has cropped up since the 1850s. What we have to do is change the tide of history," he says.

That tide has been running strongly of late. Britain is entering the 1990s burdened by a lack of skills. As the economy sinks into a cyclical downturn, it is still suffering from the wounds inflicted by the last recession on what was an ailing system of vocational training.

Manufacturing skills were one victim of the 1979-82 recession. As companies under threat of closure attacked overmanning and inflexible working practices, they laid off skilled workers and ended youth apprenticeships. By the end of the 1980s, output was suffering as a result.

Over the same decade, the government used publicly-funded training more to reduce unemployment than to raise skills. Despite refinements, Youth Training achieved less than the apprenticeships it replaced. Training for the adult unemployed offered most of them little more than work experience.

It is hardly surprising that the government has now decided on a new course, but the timing is difficult. British businesses are being asked to turn back the tide of history amid trading conditions which are prompting many simply to batten down the hatches and hope they will survive the storm.

None the less, a new course has been set. Drawing on the experience of Germany and the United States, responsibility is being handed to a network of employer-led councils. Each will cover a population of at least 100,000, organising public training and encouraging more in the private sector.

The first responsibility of these Training and Enterprise Councils (Tecs) will be to run local versions of government schemes such as Youth Training. These schemes have been organised until now by the Training Agency, a branch of the Department of Employment.

Evans, deputy chairman of the engineering group Foster Wheeler, is one of 1,200 business leaders who have agreed to sit on the boards of the 82 Tecs planned to cover England and Wales. Thirty six Tecs have started work, and the others should be running by next April. In Scotland, responsibility will fall to 22 Local Enterprise Companies (Lecs).

The Tec initiative is the latest in a long line of attempts to improve training, although it is the most significant shake-up since Industrial Training Boards were set up in 1964. These constant efforts have been prompted by a series of studies showing the inadequacies of Britain's education and training record compared with other countries.

Unease about Britain losing ground to overseas competitors led to the establishment of a Royal Commission on Technical Instruction in 1884. That concluded that the neglect of education and training by the state in Britain was one of the key reasons for a lack of economic competitiveness.

The comparative advantage of other European countries has only widened in the past decade. France has made a strong effort to raise standards of youth vocational training to those of Germany. Some 82,000 French students a year now achieve the A-level standard Technical Baccalaureat, while only 25,000 British young people pass the BTec equivalent.

About 120,000 workers in what was West Germany gain engineering and technology craft qualifications each year, against 35,000 in Britain. Everyone under 18 in Germany is entitled to a day's vocational training a week, but the number of British manufacturing apprentices has fallen from 236,000 in 1968 to under 100,000 today.

Why has Britain failed to produce a well-trained workforce in the past, and why is that failure deepening? The factors include:

● Education: Vocational training has long had a second-class status in Britain compared with academic education. The education system was geared to produce an intellectual elite for entry to professions such as the civil service, rather than helping the bulk of the population acquire skills for industry.

● Youth training: Many young people have left education for jobs that offer little or no training. The apprenticeships that were intended to fill this gap have been in serious decline. Those left have also been criticised on a number of grounds. They are thought to lead to narrow craft skills and be based too heavily on time-serving.

● Industrial structure: British companies have become concentrated in product markets with relatively low skill requirements. There has been a long-term shift away from manufacturing towards services, where many jobs are part-time. This has cut both manufacturing craft training, and the demand for specialist skills.

● Financial markets: British companies often complain that they are driven by the City of London to maximise profits and dividends, and so are pushed into a short-term approach. This has made it harder to invest, and has placed particular pressures on training budgets, which appear as costs on balance sheets.

All this means that Tecs and Lecs face a substantial task. Their *raison d'etre* is the government's view that the private sector is better placed than politicians, civil servants, or bodies such as the former Training Commission (a forerunner of the Training Agency) to motivate managers and workers and cajole employers.

So far, it has been relatively easy. The managing directors and chief executives invited to sit on boards – personnel directors were thought too junior – have come forward eagerly. All the Tecs should be running by next April, two years ahead of the schedule set last year.

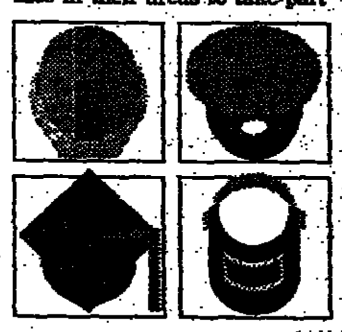
Relations between the government and Tec leaders have even survived tough negotiations over the latitude the Tecs will get in handling public money. The original guidelines laid down by civil servants were thought too restrictive by many Tec leaders. Tecs have now won freedom to spend public money on improving and subsidising private sector training.

But the real test is about to start, as Tecs grapple for the first time with the widely-acknowledged and deeply-rooted problem of under-skilling in the British workforce. This is far from the first time that there has been a consensus about the problem, but a solution has always proved elusive. Their models are the Private Industry Councils (Pics) in the US, and Chambers of Commerce in Germany. Pics are business-led groups which run schemes mainly aimed at the unemployed and poor, while the Chambers of Commerce have broad supervision over training for young people in their areas.

Tecs will be expected to assess the needs of their local labour markets, and be their main delivery mechanism for government schemes including Youth Training and Employment Training. They will take responsibility for spending the Department of Employment's training budget – £2.5bn for 1990-91.

Government funding is to be pruned progressively over the next few years. The Employment Training scheme for the adult unemployed is being cut in size, and the government wants Tecs to persuade local employers to spend more. Employers are estimated to spend about £18bn on training currently.

Tecs will try to improve training of the adult employed, particularly among small businesses which have been notorious for "poaching" trained staff from larger companies. However, they will not have legal powers to force companies in their areas to take part in training or co-operate with others.



TRAINING ON TRIAL

The councils will attempt to form links with education authorities in an attempt to match local education better to the needs of business. They will also be responsible for a variety of local enterprise initiatives, including counselling and financial help for small businesses starting up in the area.

The staff administering Tec activities will largely be civil servants. Two thirds of each Tec board will have to consist of chief executives from private industry – a requirement seen as a snub by local authorities, unions and voluntary groups. But many have taken the opportunity to join when asked.

Indeed, the idea of Tecs and Lecs has gained wide political and industrial support. The Confederation of British Industry, which has been increasingly worried at the effect of poor training arrangements, has backed it. Most unions have declared themselves willing to join Tec boards.

The Labour Party has also said it will retain the Tec network if it wins the next general election. The party has placed improvements to vocational training along with education at the top of its agenda. It wants the government to go further, giving workers' legal rights to training.

This broad backing means Tecs have a weight of expectation on them to improve Britain's training record. But a number of areas of debate are emerging as they start work:

● Funding: The Department of Employment has been under pressure from the Treasury to cut training budgets in line with unemployment. The department's budget is being cut by £300m in real terms next year, with the brunt falling on adult training budgets. Tec boards have demanded more flexibility in the way the money is spent in return.

● Links: The responsibility for training and local enterprise means Tecs will have a complex relationship with various government departments, local authorities, and other employer groups such as Chambers of Commerce. One sensitive area will be education links, with Tecs open to accusations of altering teaching to suit business needs.

● Targets: Many Tec chairmen want the government to commit itself again to national targets for skills set by Sir Norman Fowler, the former employment secretary. These were abandoned by Michael Howard, his successor, on the grounds that it did not have any control over the national level of qualifications.

The government's critics claim the true reason was that the targets would cost more than the government would pay. "You cannot have world-class targets for training with a Third World budget," says one Tec chairman. Some fear the government is now free to lower standards rather than raise them.

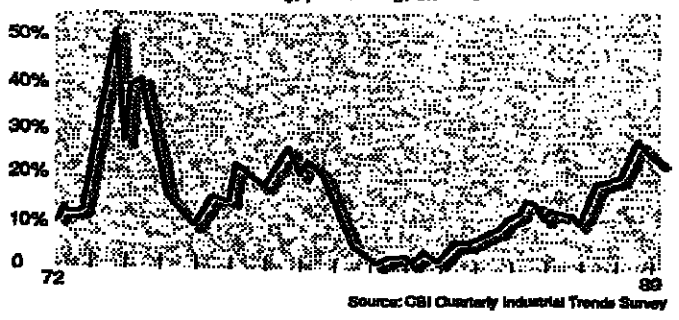
So the Tec initiative is being launched at a delicate and critical time, amid widespread agreement that the problem of underskilling must be addressed, and that employer-led councils may be well suited to do so.

But there is broad consensus about the magnitude of the task facing them.

Initiatives down the years

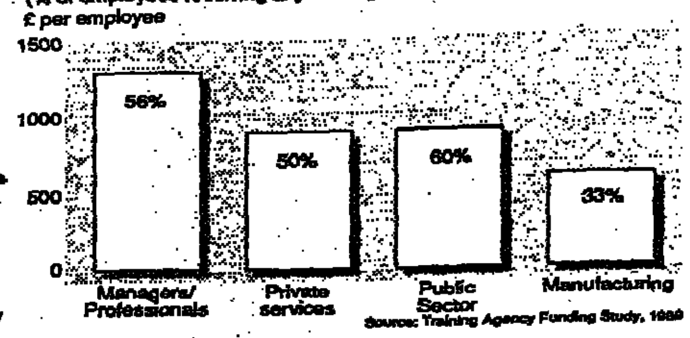
■ **1884.** Royal Commission on Technical Instruction concluded that neglect of training was a key reason for Britain's lack of competitiveness.
■ **1964.** Industrial Training Boards set up with the authority to operate a levy/grant system on employers.
■ **1973.** Manpower Services Commission set up to run public employment and training programmes.
■ **1975.** Job Creation Programme established to provide worthwhile work for those otherwise unemployed.
■ **1976.** Work Experience Programmes instigated for 16-18 year-olds.
■ **1978.** Youth Opportunities Programme and Special Temporary Employment Programme (STEP) set up to replace Job Creation and Work Experience Programmes.
■ **1979.** Most ITBs abolished; 7 remain.
■ **1981.** Community Enterprise Programme replaces STEP.
■ **1982.** Community Enterprise Programme becomes The Community Programme.
■ **1983.** Youth Training Scheme created to replace YOP and offer one year training for young people.
■ **1988.** Employment Training set up for adult unemployed. MSC abolished.
■ **1990.** Youth Training replaces YTS. National Vocational Qualifications instigated and Training and Enterprise Councils set up. 6 ITBs abolished, leaving only Construction Industry Training Board.

Companies reporting skill shortages
Survey includes: manufacturing, processing, extractive industries.



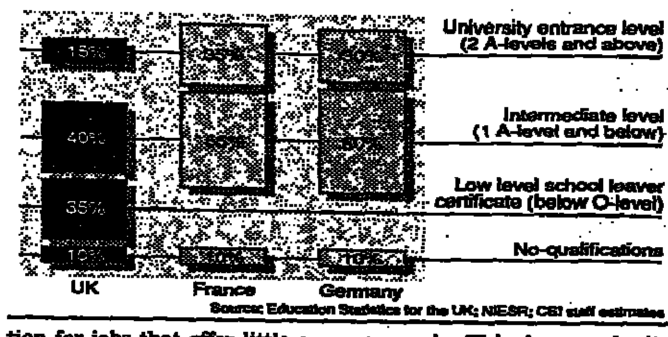
Source: CBI Quarterly Industrial Trends Survey

Expenditure on training, 1987
(% of employees receiving any training in the year)
£ per employee



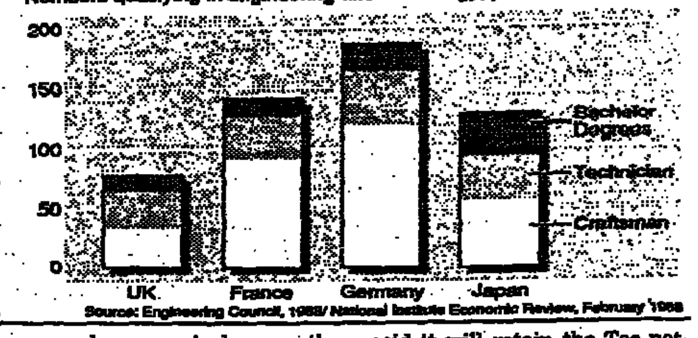
Source: Training Agency Funding Study, 1989

Highest qualifications of school leavers

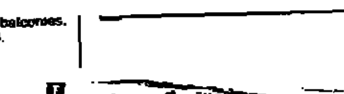


Source: Education Statistics for the UK; NIESR; CBI staff estimates

The engineering skills challenge
Numbers qualifying in engineering and technology, per head 1985



Source: Engineering Council, 1988/ National Institute Economic Review, February 1988



ARTS

ARCHITECTURE

A High-Tech decade

Colin Amery decides that Mrs Thatcher was a Late-Modernist

What are the monuments of Thatcherism? Where are they? The John Bull-like belligerence of Mrs Thatcher will long remain in the memory of the nation, but she has left no lasting, physical memorial. The Channel Tunnel received her backing and represented, in its funding, a revival of the great privately funded Victorian feats of engineering, and her persistent support of The British Library in St Pancras represented one of her government's largest investments in a public building; it is sad that it will be so architecturally undistinguished, and that it has encouraged willy nilly the destruction of one of the great Reading Rooms of the world.

Mrs Thatcher has said that her favourite city was Singapore: she admired its skyline and its incredible cleanliness. In the redevelopment of London's Docklands she attempted to reinvigorate the capital, but its failure lies in a completely inadequate infrastructure and a lack of any kind of urban design or plan. The purely political decision to destroy the capital's own government has led to a shabbier, less well organised and harsher city. I suspect it will be Canary Wharf that will be seen as the real monument to her beliefs; she was keen on the entrepreneurial spirit of its Canadian developers, but blind to its overscaled insensitivity to London and its particular inappropriateness to its deprived neighbourhood. It will always remain out on a limb.

The new Singapore never really happened in the UK. When Mrs Thatcher talked of Victorian values, it was never clear whether she had in mind the kind of wealth that created the great 19th century cities, like Birmingham with all its faith in local government, or just a more ruthless climate for the developer and the entrepreneur.

Eleven years is not long in the history of cities and architecture. The improvement in the British economy certainly led to a flourishing rash of the post-modern style – office buildings and shopping centres acquired a gloss and a shine. Mrs Thatcher drove the earth mover at Broadgate to start that highly geared project; she was filmed striding over the derelict acres of Middlesborough; and she was present at the launch of the abortive effort to save and re-use Battersea power station. Somehow her vision of Britain did not match the solidity of her own style. There was a gap between energy and realisation; there were too many attitudes to be changed and so much to be done that very few took the long view and planned ahead for more than the time it would take to pay off the loans.

I think that Mrs Thatcher was what the writer and historian Charles Jencks would have called a Late-Modernist. According to him, in his latest book (*The New Moderns: from Late to Neo-Modernism* by Charles Jencks, Academy Editions £45) the 1980's was a late-modern decade, dominated by an approach formulated in the 1960's. It was an approach which tried to get closer to a popular imagery of the contemporary world while celebrating a kind of technological fantasy. The work of British architects like Norman Foster (knighted in the Thatcher decade), Richard Rogers and Nicholas Grimshaw, personifies this moment, taking technological imagery to an extreme not known or understood by early moderns.

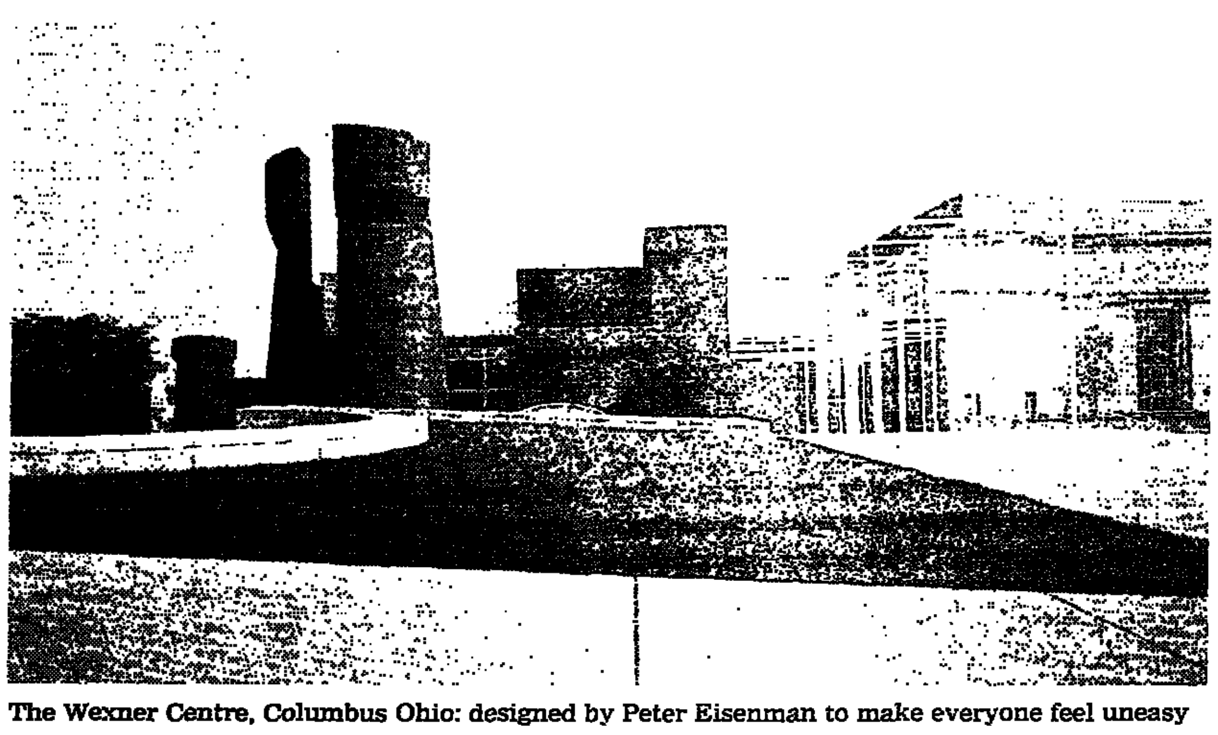
Jencks is very good at appreciating the ironies of the state of architecture. He points out that the British have in the last decade been the best practitioners of the High-Tech style. How curious that it is Britain and not the nations that control the high-tech industries – Germany, Japan and America – which is the finest exponent of the style. But perhaps it is "styling" that is the clue: Britain has a schizophrenic attitude to modernisation, and the use of technology as styling is a measure of our seriousness about the real advantages of technology.

Jencks is also good at pointing out the irony that elaborate and High-Tech architecture is supposed to be entirely functional. It's practitioners deny that it is a style, claiming only utility as a rationale. Almost anyone working in Lloyd's or inside a Norman Foster building at Stockley Park will feel that technological appearances promise more than they can deliver.

In his book Jencks exercises his mind in an irreverent and amusing way over the future of modern architecture. As the arch classifier himself, it is interesting to note that he now sees the danger of classifying every nuance of modernism as a new style. But his great value is that he gives his readers enough signposts to chose their own direction. I was intrigued by the Wexner Centre of the Art of the Twenty First Century in Columbus, Ohio, designed by Peter Eisenman because it could be be the sort of architecture that is commercialised and turned into a future style. This museum on the campus of Ohio State University has been designed to make it unsuitable for the showing of paintings. A bizarre building, it is composed of fragments of architecture: broken towers, open grids, and everywhere attempts to redefine the planes of the ground, or the walls, or the solidity of forms.

The museum here is the exhibit, and it has been designed with a purpose: to make the artist feel uneasy. The architect also wants us to feel uneasy about his building. He has said that he is against architecture that shelters and encloses, against buildings being objects in the landscape. Instead, Eisenman offers architecture for the 21st century that is an excavation of the recent past.

If this is the new modernism for the 1990's, is it an advance upon the cosmetic application of detail on post modern architecture? Jencks book offers us all sorts of clues to the architectural future. Mrs Thatcher could only see modernism as a symbol of progress – of getting things done. She may now have time to contemplate the form of her own monument. I fear that if she read Mr Jencks's book she would not be any wiser as to which path to follow; but I think she would spot that a great many modern architectural emperors definitely have no clothes at all.



The Wexner Centre, Columbus Ohio: designed by Peter Eisenman to make everyone feel uneasy

Death and the King's Horseman

ROYAL EXCHANGE, MANCHESTER

This play has waited surprisingly long for this, its British premiere. Its author, the Nigerian writer Wole Soyinka, has been associated with Britain and with British theatre since the 1950s. *Death and the King's Horseman*, which he wrote while he was a Visiting Fellow at Cambridge University in 1973-74, was first published here in 1975. Soyinka was awarded the Nobel Prize for Literature in 1986. Since the play deals with Nigerian under British colonial rule in the 1940s, why have British theatres been holding back from it?

Partly, no doubt, because Britain has been slow to accept African literature. (Cambridge consigned Soyinka's lectures to the Social Anthropology Department.) But partly too because of the Nigerian characters' thick torrent of imagery. I open a copy of the play at random and chance on this: "Oh you who fill the home from hearth to threshold with the voices of children, you who now bestride the hidden gulf and pause to draw the right foot across and into the resting-home of the great forebears, it is good that your loins be drained into the earth we know, that your last strength be ploughed into the womb that gave you being." In several passages, every sentence is like this. I don't question the authenticity of this as Nigerian parlance; but I observe its obscurity to a predominantly white British audience. This web of imagery is rich, charming – but in the theatre it took me over 10 minutes before I could get through to what prompted the characters to use it.

That, however, is just what Soyinka intends. Gradually, with some astonishment, we become aware that the leading character, Elesin Oba, is the horseman of the king who has just died, that this is his great day and that he selects an already betrothed girl to be his bride. We also become aware – perhaps refusing to believe the first times it is implied – that tonight, after consummating his marriage, he must die, must join his king, must dance himself into a trance. We, the British audience, understand these things ahead of the British characters in the play who try, when they hear of this planned death, to interfere.

The racism of the British characters is the most obvious thing about the play and is probably true enough to history for us to raise no protest about it. Though some of them make some effort to understand the Africans, none of them is pluralist enough to accept that here is an equally valid system. To them, this Nigerian way of death can only be barbarous. I think that for many observers, especially those who are only too happy to rejoice in such pluralism, this will be the most arresting feature of the play. But to Soyinka the British are almost incidental. His Elesin Oba becomes a truly tragic character, who is kept from death as much by his own love of life as by British chains. Alive and imprisoned, disgraced in the eyes of his own people, he is as tragic as Samson.

The Manchester production is directed by Phyllida Lloyd. Against Soyinka's stated intention, she places an interval before the last scene. (The play would run for just over two hours without it, which is not uncommon today.) I find also that she and her musical director Muraina Oyelami let the threnodic nature of the Nigerian scenes – after a promising first scene – evaporate.

Even so, the play is powerful and compelling. The leading players – George Harris as Elesin Oba, Jude Akuwinde as his son Olunde, Claire Benedict as Iyaloha, "Mother of the Market", and Simon Dormandy and Nicola Redmond as the District Officer and his wife – are always convincing. Benedict is especially impressive.

Alastair Macaulay

Burning Patience

SOHO POLY

The end of Soho Poly theatre as we know it – a subterranean dungeon a brisk walk from Oxford Circus – elicits mixed emotions. No-one who has ever found him or herself scudding down the stairs, brained by a light or plonked behind "that pillar" could honestly mourn it as a theatre space. And yet the very limitations of this devoted new play theatre could be seen to have left their mark on the drama of the last two decades.

The Soho Poly play, enshrined in its own theatre award, has tended to be small and perfectly formed: too perfectly; at times, under its last longstanding regime, which had become so at home with its nooks and crannies as to allow production to eclipse the product.

How its new space will affect its character remains to be seen, but there is a satisfying symmetry to the fact that the director who will, with luck and an extra £250,000, move the company into its new 200-seater premises, the Queensway Theatre, is Tony Craze, who began his association as one of its more successful writers.

His administration so far has had an air of treading water. This swansong, presented by the visiting Loose Change Theatre Company, is a portrait of the Chilean poet Pablo Neruda by his compatriot Antonio Skármeta the moody sexuality of which translates rather better than the poetry.

Neruda briefly entertained political ambitions but settled for a diplomatic career under Allende's Socialist government. He won the Nobel Prize for literature in 1971, two years before his death. *Burning Patience* is set back at his home in a remote fishing village, where his status as the only villager to receive mail sets up in a friendship with a young, romantic postman.

A symbiosis is established whereby the poet lives through his protegé, who in turn finds expression through Neruda's poetry. Young Mario courts his Beatriz with metaphors borrowed from his mentor, whose wry presence is at odds with his flights of lyricism.

The frustrations of the piece are two-fold: firstly, its structural limitation to just four characters (Neruda, Mario, his sweetheart and mother-in-law) allows only cursory glimpses of Chilean politics, yet Neruda was a political animal. Too much, for a London audience, is taken as read: there is little attempt to explain the peculiarly Latin American relationship of ideology to art and both to passion.

The poetry, in consequence, seems lush and self-indulgent, its penchant for sensuous metaphors never quite justified by the quality of their recitation. Vincenzo Nicoli, who plays Neruda, has a prosaic edge, an essential un-Latinate quality, which works to the detriment of both poet and poetry.

Where Tessa Schneideman's production succeeds extraordinarily well is in its evocation of the love affair between Mario and Beatriz, which is conjured in a series of audacious mimes. It takes quite an actress to keep face in a seduction scene in which the come-hither is supplied by a raw egg rolled around the body, but Janet Steel has a quite remarkable capacity for sensual suggestion, which is picked up in the devouring glances of Don Gilet's endearing Mario.

Their precipitous courtship, sticky with sex, passes easily and sardonically into the marriage of a pregnant bride, at the end of which Neruda departs for France, leaving the young couple to Beatriz's formidable mother - a portrait of Latin matriarchy from Kate Corkery that could have hailed straight from the portals of Bernada Alba.

From his leave-taking onward Neruda is a marginalised figure, who exists through the fantasy of the uoung couple. His death is anticlimactic and remote, as is the political reality that confronts Mario finally with a notice of arrest. Allende's government has been overthrown.

Symptomatically, this most ominous finale sinks in its own understatement.

Claire Armistead

Alastair Muir

Janet Steel: capacity for sensual suggestion

Krystian Zimerman

BARBICAN HALL

It was difficult to explain the disappointing turn-out (less than half the Barbican's capacity) for Krystian Zimerman's remarkable appearance on Friday, though had he been playing Chopin's *Preludes* rather than Debussy's no doubt the response would have been larger. Yet if there was any doubting it before, this recital provided the clinching evidence of Zimerman's formidable stature; it is very hard to think of another contemporary pianist in this repertory who could have matched his combination of technical control, imagination and musical intelligence. Zimerman's playing has always been characterised by its total absence of self-regard. Nothing in these performances was allowed to draw attention away from the music; even in the most flamboyant pieces – *Minstrels* from the first book, *Les tierces alternées* and *Feux d'artifice* from the second – the immaculate technical control was strictly confined to making every image absolutely precise. Line was defined just as confidently and magically as texture; the monochrome austerity of *Des pas sur la neige* and the absolute lack of excess sentiment in *La Fille au cheveux de lin* were as compelling as the superbly terraced soundscapes of *La cathédrale engloutie* or *Feuilles mortes*. In the later pieces of the second book, when the syntax becomes elusive and the texture of Debussy's piano writing even more intricate, his concentration was extraordinary. One hung on every phrase, in the certain knowledge that it would contain at least a minor revelation of colour or nuance, a new insight on these extraordinary keyboard essays. Zimerman's command here seemed, if anything, more imposing, and the sense of a journey completed – from the allusive, "impressionist" Debussy of the beginning of Book 1 to the "symbolist" of the end of Book 2 – was hard to resist.

Andrew Clements

★

The same evening at the Queen Elizabeth Hall, the London Sinfonietta under Kent Nagano was celebrating the 60th birthday of Toru Takemitsu. Over at least the last decade Japan's best-known composer has been a frequent subject of this orchestra's attentions; indeed, two of the three Takemitsu works in Friday's programme originated as Sinfonietta commissions: *Rain Coming* (1982) and *Tree Line* (1988), both for small-orchestral formations.

Takemitsu has long attracted to his music the enthusiasm of top-flight players and ensembles – in the three-movement duet-piece *Toward the Sea* (1981), Friday's guitar and flute soloists were Julian Bream, no less, and Sebastian Bell. Reasons are not hard to find. Takemitsu writes with exquisite refinement for every sort of instrumental combination.

To my ears, though, and once the virtues of delicacy and picturesqueness have been appreciated, Takemitsu's music remains resolutely unmemorable: limited in range, in ambition, the finest-quality sonic wallpaper. All the purposeful exertions of the excellent Nagano and his superb players could not make it seem otherwise.

Max Loppert

Prince of the Pagodas

COVENT GARDEN

We have often admired Nina Ananiashvili and Alexey Fadeyechev in their performances with the Bolshoy Ballet. Their gifts, though, have rarely seemed finer – because meeting a significant challenge – than on Friday night when they appeared for the first time as guest artists with the Royal Ballet in *The Prince of the Pagodas*. It is a most welcome aspect of the new freedoms available to Soviet dancers that they can extend their artistic horizons in a Western repertory, just as it is thrilling for audiences here to see the apparatus of Russian training and temperament brought to bear upon our ballets.

For this is very clearly a two-way traffic, and if *Pagodas* stretched Ananiashvili and Fadeyechev as interpreters, the staging benefited from their presence. Their immediate impact had to do with the sustained emotional tone of their playing. In a role which Darcey Bussell dances by divine right and with divine sensibility, Ananiashvili showed a concern for the psychic and dramatic value of every scene, every least moment. Technically she can command the choreography, and bring to it certain lovely nuances having to do with the richness of a Russian torso which opens out so generously to movement. In portraying the young princess's uncertainties and her spiritual integrity, Ananiashivili found eddies of feeling, a play of light and shade, which spoke to us of the girl's heart. I thought it a most touching and rewarding reading, which ended with a proper sense of fulfilment at curtain fall.

Alexey Fadeyechev gave what I find to be the best interpretation of the Prince I have seen. It is to be expected that his illustrious impersonations of classic ballet's catalogue of heroes would enable him to make everything of the Prince in human guise. The pathos of his view of the Salamander, and the physical richness with which he drew the lines of MacMillan's choreography, were of extreme distinction.

The evening also brought the debut of Errol Pickford in the crucial character of the Fool. Though he can soar splendidly through its demands, Pickford is too forthright in temperament and technique to catch the ambiguities of meaning and style with which Tetsuya Kumakawa imbued each bravura step. The role is more delicate and more insidious in meaning than Pickford as yet shows it.

Clement Crisp

ARTS GUIDE

November 23-29

MUSIC, OPERA AND BALLET

London

Israel Philharmonic Orchestra conducted by Zubin Mehta perfroming Mozart piano concerto and Sheriff's revival of The Dead. Barbican Centre. (Mon) (638 8891).
London Philharmonic Orchestra conducted by Jan Latham-Koenig performing Mendelssohn and Rossini. Royal Festival Hall (Mon) (928 8800).
London Symphony Orchestra conducted by Russell Gloyd performing tributes to Duke Ellington and Count Basie. Barbican Centre. (Tue, Wed) (638 8891).
Royal Philharmonic Orchestra conducted by Gunther Herbig performing Mozart and Bruckner. Royal Festival Hall. (Tue) (928 3002).
Royal Opera, Covent Garden. A new production by Adolf Dresen of *Fidelio* is conducted by Christoph von Dohnanyi, and has Gabriela Benackova, Jan Blinkhof, Monte Pederson and Robert Lloyd in leading roles. Further performances of the *Barbiere di Siviglia* revival, conducted by Gabriele Ferro, with the second of two interesting casts: Edita Gruberova, Justin Lavender, Vladimir Chernov, Eric Garrett and Alexander Morozov.

Paris

Midori, violin. Paganini, Strauss, Chopin/Milstein, Ravel (Mon). Théâtre des Champs Elysées (47208637).
Orchestre Colonne, the Tchaikovsky choir, the Colonne orchestra choir conducted by Vitaly Kataev. Tchaikovsky (Mon). Salle Pleyel (45638873).
18th Century Orchestra conducted by Frans Brüggen. Beethoven, Mozart, Haydn (Tue). Théâtre des Champs Elysées (47203637).
Ensemble Orchestral de Paris conducted by Mario Venzago, with Augustin Dumay (violin), Gerard Causse (alto). Mozart, Ivan Jevtic, Rossini (Tue). Salle Pleyel (45638873).
Collegium Vocale conducted by Philippe Herreweghe. Bach's cantatas (Wed). Théâtre des Champs Elysées (47203637).
Orchestre de Paris conducted by Kent Nagano, with Saschko Gavrilloff (violin). Liszt, Ligeti, Stravinsky (Wed, Thur). Salle Pleyel (45638873).
Bastille Opera. The season opens with Verdi's *Otello* conducted by Myung-Whun Chung with Placido Domingo in the title role for the first five performances and with Renato Bruson as Iago and Kallen Esperian as Desdemona (40011616).
Opéra Palais Garnier. *L'histoire de Manon* to Massenet's music rearranged by Leighton Lucas in Kenneth Macmillan's choreography with Nicholas Georgiadis decors and costumes, conducted by Barry Wordsworth (47425750). Théâtre des Champs Elysées.
Chatelet. Broadway musical *42nd Street* to Harry Warren's music in a production supervised by Mark Bramble (40282840).

Antwerp

BRT Philharmonic conducted by Alexander Rahbari with Francois-Joel Thiollier (piano) playing Beethoven, Grieg and Sibelius (Thur). Koningin Elisabethzaal.

Brussels

Gidon Kremer (violin) with Martha Argerich (piano) play Prokofiev's integral for violin and piano (Tue). Palais des Beaux-Arts.

Berlin

Justus Frantz (piano) and the Schleswig Holstein Festival Orchestra under Paolo Olmi with an all Mozart programme (Mon). Philharmonie.
Berlin Philharmonie under Seiji Ozawa and M. Rostropovich (cello). Haydn, Schnittke and Dvořák (Tue, Wed). Philharmonie

Frankfurt

Schleswig Holstein Festival Orchestra and Justus Franz (piano), conducted by Paolo Olmi with an all Mozart Programme (Tue); a Krystian Zimerman Debussy piano recital (Wed); Martha Argerich (piano) and Gidon Kremer (violin) play works by Prokoviev (Thur). Opera. *Ariadne auf Naxos* has Helena Doese, who is brilliant in the title role. *Der Fliegende Holländer* returns with an extremely strong cast led by Knud Skram, Lisbeth Balslev, Seppo Ruohonen and Uwe Peper. *Un Ballo in Maschera* brings together the talents of Bruno Beccaria, Maria Guleghina and Vera Baniewicz.

Cologne

Württemberg Chamber orchestra and James Galway, conducted byJoerg Faerber. With works by Mozart, Haydn and C.P.E.Bach (Tue). Philharmonie.
Bonn's Orchestra, the Philharmonie choir and the Bulgarian Capell Obretenov choir with singers Ara Zampieri, Alexandrina Miltcheva, Giacomo Aragall and Simon Estes, conducted by Dennis Russel Davies. Philharmonie: Verdi's Messa da Requiem (Wed).

Madrid

Ayo-Jimenez Duet (violin, piano). Mozart programme (Tue, Thur). Auditorio Nacional de Musica (337 01 00).
Israeli Philharmonic Orchestra conducted by Zubin Mehta. Mozart, Mahler (Wed). Ben Haim, Bloch, Beethoven (Thur). Auditorio Nacional de Musica (337 01 00).

New York

Earl Wild piano recital. Beethoven, Chopin, Liszt (Mon). Carnegie Hall (247 7400).
New York Philharmonic conducted by Charles Dutoit with Jean-Yves Thibaudet (piano). Stravinsky, Szymanowski, Liszt, Debussy (Tue). Charles Dutoit conducting with Cho-Liang Lin (violin). Jacques Hetu, Glazinov, Berlioz (Thur). Avery Fisher Hall, Lincoln Center (874 6770).
McDermott Trio. Schumann, Shostakovich, Mendelssohn (Wed). Kaufmann Hall (415 5450).
Kalichstein-Laredo-Robinson Trio. Zwilich, Haydn, Clarke, Brahms (Thur). Carnegie Hall (247 7400).

Washington

National Symphony conducted by Alessandro Siciliani with William Neil (organ). Saint-Saens, Ravel (Thur). Concert Hall, Kennedy Center (467 4600).

SALEROOM

Record price for a Sorolla in Spain

The atmosphere was cool in the blush-pink ballroom of the Ritz in Madrid on Thursday evening for Edmund Peel & Asociados' auction of Impressionist and Modern pictures. Bidding veered between extremes, with one third of the 31 lots raising no response at all and the most important picture in the sale, a plein-air beach scene by the celebrated Spanish Impressionist Joaquin Sorolla y Bastida (1863-1923), realising the highest price ever paid for a Sorolla in Spain. The sea of faces, framed by furs, pearls and Hermès scarves watched, and the TV cameras rolled, as "Francisqueta (figure of a Valencian fishergirl)" exceeded its upper estimate to sell to a telephone bidder for 212.8m ptas (£1,150,270).

Sorolla executed the canvas in November 1907, writing to his wife of his excitement with its progress. The coral-skirted fishergirl looms close to the picture plane, captured in broad brushstrokes in the already strong morning light. The picture was exhibited in his first and hugely successful show in New York in 1909, where it was bought for a substantial $2,500. It was consigned to auction from an American collection.

Another Sorolla, a commanding, unfinished portrait of a man, also exceeded expectations by selling for 5,824,000 ptas (£31,481). The world auction record for the artist was set at Sotheby's in London in June with a larger and more complex beach scene which realised £1.65m.

The surprises for the sale were the failures of important works by Mir and Nonell. Mir was the leading Catalan Post Impressionist landscape painter, and "The "Mill" is one of the finest of his works to come on the market in the last 10 years. Nevertheless, bidding stopped at 18m ptas. Nonell's monumental hunchback woman fared hardly better, bought in at 25m ptas. There are only 200 known works by Nonell. Equally unexpected was the success of an unexceptional Dali, "Anatomias", which found a new owner at 43,680,000 ptas (£236,106).

Mr Peel was disappointment by the failure of the Mir and Nonell, and by the 13.44m ptas raised by a late Maria Blanchard, although the rest of his carefully pruned sale went much as expected. The sale totalled 324,352,000 ptas (£1,753,254), with only 21 per cent unsold.

Susan Moore

FINANCIAL TIMES

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Monday November 26 1990

How to win the election

WHICHEVER candidate emerges victorious from the fray will then face the task of winning the general election for his party. But he will be on strict probation. His "supporters" will have put him in office on the supposition that he can bring home the electoral bacon for a fourth successive term, a feat unparallelled in British political history. Those who voted against him will expect no less, and will be still less charitable about failure.

What is more, the new prime minister will have enough time to be blamed personally for the outcome. If things go wrong, his fate could be that of Sir Alec Douglas Home, a mere "might have been" in British political history.

So what are his chances? One challenge will be to keep his party intact through the coming inter-governmental conferences on economic, monetary and political union of the European Community. But, as always in British politics (at least until entry into Emu hands over the government's monetary powers to someone like Mr Karl Otto Pöhl), he will bring home the bacon only by first spreading a great many slices among the electorate.

The task is difficult, but not impossible. If the resilience of sterling to the events of this week continues, the solution is likely to be lower interest rates, assisted by a fairly early move to the narrower 2.25 per cent band within the exchange rate mechanism. The latter might well be coupled with a small downward realignment of the central rate, thus following the example of the Italians in January of this year. Mr Heseltine, with his proud boasts about reviving British industry, might find himself toying, somewhat riskily, with the notion of a rather larger realignment.

Presumed decline

Given the depth of the recession in which the UK economy is likely to find itself, underlying inflation is bound to fall. The presumed decline in base rates will reduce headline inflation still faster, while simultaneously stimulating demand. None the less, wage inflation will persist, while there will be a rapid increase in unemployment and, at best, very modest economic growth.

This is hardly a "golden scenario". But it does at least have the odd gleam in it, depending on how far interest rates can be cut, which will depend as much on the Gulf and the Bundesbank as on events at home.

Pure masochism

Monetary policy is only half the story. Fiscal policy, too, can be played with. The public spending plans announced just this month are very tight. A new prime minister – though, presumably, not Mr Major, nor with Mr Major's concurrence, should he remain chancellor of the exchequer – might decide that the attempt to keep the share of general government expenditure in gross domestic product constant during a recession is pure masochism.

He might also decide that the UK's fiscal position would, in fact, allow a substantial public sector borrowing requirement. After all, the public sector debt repayment is still expected to be £3bn this year, while the ratio of public sector debt to GDP has fallen sharply during the 1980s. Room might thus be found for more spending than now planned, along with tax cuts.

The poll tax comes first. At present, local government "self-financed expenditure" (to be funded by the poll tax) is set at a mere £13.5bn next year. Meanwhile, central government support for local authorities is set at £47.9bn. Never can a government have inflicted so much damage upon itself over so little. At the least, the poll tax needs to be halved, which would cost a little over £6bn, well within the means of a suitably soggy chancellor. But once that is done the figment that local authorities are financially independent might as well be recognised as such.

So the government has room for play, but the game could prove dangerous. Rapid reductions in base rates would postpone adjustment to the ERM. Rapid increases in the fiscal deficit would waste one of the great assets of the Thatcher era. Politics can always be played with economics, but as the aftermath of the last pre-election boom has shown, economics will have its revenge in the end.

Natural justice and Mr Milken

WAS Michael Milken, the junk bond financier who was sentenced to 10 years in jail last week, a scapegoat for the excesses of the US savings and loan fiasco? Or was he a crook who was lucky to escape with significantly less than the maximum penalty that he faced of 28 years? US District Judge Kimba Wood was at pains, in passing sentence, to emphasise that it was not her job to respond to calls for a symbolic judgment on the financial excesses of the 1980s. Yet for those in Europe and Japan who confront similar problems in enforcing securities regulation, the conduct of American justice in this instance leaves a distinct feeling of unease.

That unease relates partly to the bluntness of the weapon used to extract a plea bargain from Milken. He and his family were threatened with indictment under the Racketeer Influenced and Corrupt Organisations (Rico) law, a statute aimed at facilitating law enforcement against the Mafia. Confronted with the prospect of facing trial as a racketeer with penalties to match, Milken not unnaturally pleaded guilty to less horrific breaches of securities laws to win immunity from further prosecution. None involved racketeering or insider dealing. He also agreed to pay $600m in fines and restitution.

Memory lapses

Equally striking was the way in which witnesses who had been granted immunity from prosecution failed to come up with much hard evidence. There were innumerable lapses of memory and many changes of story. As for the actual sentence, it amounted to more than three times the stretch served by insider trader Ivan Boesky, who shopped Milken, as well as being the stiffest seen for large-scale securities violations in recent memory. But then Judge Wood was offering a deal. Milken had already agreed as part of his guilty plea to co-operate with the government after sentencing and his desire to star in the role of witness for the prosecution was reportedly less than wholehearted. A harsh sentence provides a bigger incentive for him to pipe up in order to procure a reduced term.

In a land where Al Capone was finally put away for tax evasion this circuitous route to justice no doubt appears less bizarre than it does to non-Americans. That said, the crimes to which Milken pleaded guilty, though scarcely of the kind for which Capone achieved notoriety if not successful prosecution, were more than mere technicalities. He defrauded investors by concealing information and cheated clients of his firm Drexel Burnham Lambert by falsely reporting prices at which securities were bought and sold while pocketing the difference against market prices for the firm. He delivered a company into the hands of a corporate raider by using Ivan Boesky to take an unlawful secret position in the victim company's stock. And he undertook trades designed to facilitate tax evasion by a client.

Fraudulent activities

Though non-violent these crimes are clearly anti-social. A country which relies on an active market in corporate control to provide a disciplinary framework for industrial management cannot afford to allow companies to change hands on the basis of skulduggery and disinformation. Nor will the capital markets continue to attract investors if the fraudulent activities practised by Milken are allowed to become widespread. The picture that has emerged of Drexel Burnham's operations has been thoroughly unsavoury.

The problem with white-collar crime in financial markets, which until the recent Guinness trial was underlined in the UK by the lack of successful prosecutions against anyone other than small fry, is that it is difficult to detect and difficult to prove before a non-expert jury. Stretching the legal structure in the American way would almost certainly provide a means of enhancing enforcement. But such an approach raises difficult questions of natural justice. And the Milken sentencing should not distract attention from the real culprits in the savings and loans disaster: some leading lights of the Reagan administration and their supporters on Capitol Hill.

David Buchan considers the many external factors forcing the European Community to reconsider its political identity

Economic giant, political pygmy

Would you take seriously an organisation that had four years to agree a position on reforming farm trade and still failed to get its offer in to the Gatt on time?

Would you be impressed by an organisation that pledged $2bn to those Middle East countries bearing the brunt of the embargo against Iraq, but bickered for three months over who picks up the bill?

Would you hold in high regard this organisation's parliamentary representatives, on whom an average of only 58 per cent of electors last year thought it worthwhile casting an opinion, in spite of compulsory voting in several places?

Fearing your negative answer to these questions, the 12 constituent states of the European Community are, with varying degrees of enthusiasm, about to launch themselves into an inter-governmental conference on political union.

Do not be misled by the term "union" in this political context. In the other IGC on Economic and Monetary Union (Emu), to start together on December 14, union really means what it says; the aim of 11 of the 12 states is a single currency managed by a common federal central bank, the EuroFed.

One distant day, the peoples and politicians of the Community may have grown sufficiently similar to put the issue of a single government of a United States of Europe before an IGC. But for this year, next year, the rest of this century, there will be as many cabinets, heads of state, diplomatic services, armies, national flags as there are member states of the Community.

Next month's IGC on political union will tackle the widely-admitted problems of incoherence in foreign policy, lack of democratic accountability, and inefficiency in decision-making. It might seem odd to attach so much weight to these problems, when the Community has just made its greatest leap forward in 30 years by forging a genuinely common market. But the Community's growth in economic importance has only made it look more like a relative pygmy in the political arena.

External events have forced the Community into reconsidering its political shape and destiny. Neutral Austria's application for membership re-opened the debate on the Community's security dimension. Revolution on the Community's east European doorstep thrust political leadership onto the Commission, which now coordinates all western aid to the region. The coming together of the two Germanys led many EC states, even such a previous Euro-hesitater as Denmark, to want closer political integration as a means of binding pan-Germany's hands. Finally, the Gulf crisis has left talk of common security sounding incomplete without action on defence.

This glare of attention on foreign policy has put the European Parliament in the shadow. This is not surprising, since however much EC governments might choose to pool their diplomatic efforts and involve the Commission more, they have no intention of letting 518 MEPs in on the act.

The parliament feels hard done by. It was the first (apart from an early memorandum by Belgium) to call for a separate IGC on political reform. But it has been sorely disappointed by subsequent developments.

It will, of course, be cajoled out of its present sour mood, if only because getting quarter of a loaf is better than no bread at all. But it is significant that the next lurch forward in European integration will not primarily benefit the one institution that is structured along truly transnational lines. MEPs group themselves according to ideology, not nationality; whereas the 17 commissioners who run the Commission are, and will almost certainly remain, appointed by national governments. What this signifies is that the Community is still a Europe of nations, rather than of peoples.

Because no blueprint, comparable to the Delors report on Emu, exists for political union, there is a confusing welter of proposed solutions on the table. But they seek to remedy only three main problems.

● Foreign policy. In fact, the Community has become a political heavyweight. Increasingly its trade policy, its currency, its federal structure will dominate the whole continent of Europe. As Nato wanes, the Community's importance in the transatlantic dialogue with the US waxes, while its role in the General Agreement on Tariffs and Trade – for good or ill – is pre-eminent as the world's largest trading bloc. Two of its members, Britain and France, retain nuclear weapons and the ability to move at least modest numbers of troops to world trouble spots.

In form, however, Community foreign policy has a papier maché quality. European Political Co-operation (EPC), the mechanism by which the 12 concert their foreign policy statements, has had its successes, notably in the Conference on Security and Co-operation in Europe. But it is essentially a paper mill, producing joint statements, often too late (because of the need for consensus) to get noticed. "Foreign policy by declaration doesn't have much effect," says one senior Council official. "It merely irritates the addressee (of the EPC statement), while leaving the Community thinking it has done something of value."

Some reformers urge that the Community should follow President Teddy Roosevelt's advice – perhaps speak more softly to the outside world, but certainly carry a bigger stick. One way would be for the Community overtly to put its economic clout to political use, as it has done with east European backsliders like Romania.

On the table at the intergovernmental conference will be proposals to improve the competence and speed with which the Community reacts to world events. France wants the Council of Ministers secretariat to be beefed up by national diplomats on secondment. The Commission wants EC states to agree that though they will continue to set the broad lines of foreign policy (such as aid to frontline Gulf states) by unanimity, all implementing decisions (such as who pays) would be taken by majority vote.

Because no blueprint, comparable to the Delors report on Emu, exists for political union, there is a confusing welter of proposed solutions on the table

Mr Gianni De Michelis, the Italian foreign minister, jumped the gun when he recently suggested the Community take over Western European Union, the body in which nine EC states talk about, and sometimes plan (in the case of Gulf deployments), defence. This got a cool reception, and not only from Nato-minded Britain, neutral Ireland and pacifist Denmark. Support may rally around the compromise, floated by both Italy and the Commission, that at this stage the 12 EC states should just write WEU's mutual defence clause into the EC treaties, and take over the rest of WEU when that organisation's treaty expires in 1998. Ireland, and future EC members coming from the European Free Trade Association (Efta) and east Europe might find joining WEU less unpalatable than Nato.

● Democratic legitimacy. The famous "democratic deficit" – the lack of accountability at the heart of the Community – arises because control over EC institutions or legislation has moved away from the national parliaments of the 12, without really ending up in the lap of the European Parliament. Prime law-making power remains with a Council of Ministers which, since perestroika hit the east, is Europe's only legislature to act, or try to act, in secret.

The idea of letting daylight into the Council leads ministers to roll their eyes and warn that if Council sessions were made totally public the necessary horsetrading would be done elsewhere.

So, the choice is: beef up the Strasbourg assembly, or return some control to national parliaments. The first option will be pursued, probably to the extent of giving MEPs amending rights over more legislation (social, environmental and maybe even tax issues), increased powers to launch their own inquiries (in the hope that they will devote as much attention to how EC money is spent as to how *much* is spent), and formal approval of nominations for commissioners (like the US Senate confirmation of White House nominees).

But MEPs almost certainly will not get their wish for a right of co-decision (meaning that no EC law could pass unless Strasbourg gave its positive say-so) and a right to initiate legislation. The Commission is set on retaining its monopoly power of proposal, by which it so effectively controls the Community agenda.

Ideas to involve national MPs in EC law-making by creating out of them a Euro-Senate (advocated by Mr Michael Heseltine), or a grand scrutiny committee (proposed by Sir Leon Brittan) have not got any support. And a similar plan, pushed by France, is strongly opposed by the Commission and some governments. The French idea is a mixed Congress of national and Euro-MPs which would become part of a new high-level dialogue with the European Council (the name given for summits of EC government leaders). Convening a couple of times a year, this Congress would set the broad lines for standard EC institutions to carry out.

It is because Bonn is far keener on the European Parliament that Germany and France have so far been unable to get their political union act together, as they do effectively in other areas. Germany, too, has other concerns about democratic control. It wants regions to have some formal say in EC law-making – although virtually no other countries have regions similar to its powerful Länder.

● Efficiency. The 1986 Single European Act, which paved the way for the creation of a single internal market, said any measure related to the single market should be settled by majority vote. Though surprisingly few issues – about one in 25 single market items – are actually put to a vote, its ever-present threat is potent; at the end, the presidency usually just says "I think we are now ready to adopt," and those ministers who know they have not got enough votes to block the measure simply keep their heads down. Majority rule is harder to apply outside internal market legislation, even where it is legally permitted; the Gatt farm support issue is a classic instance of this difficulty.

The likely outcome of the new IGC will be to stretch the internal market net so as to make more issues resolveable by majority. Britain, however, will baulk at EC worker participation rules being justified as necessary to the single market, and it and others will similarly object to giving up their veto on tax issues.

Another theme will be chasing up legislative laggards. Italy and Greece are the prime malefactors in failing to put EC directives onto their national statute books, but each of the 12 has sinned and had a run-in with the European Court of Justice at one time or another. Financial sanctions for failure to comply with court edicts has been suggested, probably in the form of being denied EC funding rather than an outright fine. The UK government, without any of the qualms about supranationality (majority voting and mutual recognition of each members' laws) it has shown in other areas, is very keen on such enforcement.

To the efficiency issue is linked that of enlargement. Three countries have already applied – Austria, Cyprus, Malta; the knock on the door from Sweden, Norway, may not be far off; and at least three east European states have Community aspirations. Even assuming the 12 now create a satisfactory structure for themselves, there is still a danger that it could collapse under the weight of more members.

OBSERVER

Salad days for Milken

■ To some Americans, the 10-year prison term handed down to Michael Milken, the junk bond king, was history's judgment on a decade of greed. But for 44-year-old Milken, any time spent in jail – which he may still avoid if he agrees to co-operate with prosecutors – is likely to be more humiliating than uncomfortable.

Milken is expected to serve no more than three years of his sentence before being paroled and will be sent to one of 34 minimum security prisons for white-collar criminals. The most famous of these prisons is Lompoc in California, where Ivan Boesky spent his time. Lompoc is known as "Camp Fed" because of its lack of fences or guard towers, its salad bar, its telephones for inmates and its swimming pool, racquetball, tennis, basketball, shuffleboard and jogging facilities.

The rumour in New York is that Milken will be sent to a "country club" prison in Danbury, Connecticut. Milken-watchers claim his wife has even set her sights on a mansion in nearby Old Greenwich.

One of Milken's greatest sacrifices on arriving in prison may be that he has to hand in his toupée when he arrives. Hairpieces are banned in case prisoners try to conceal things other than baldness beneath them. But there may be some consolation in the knowledge that, even after paying $600m of fines and facing another $400m of legal claims, Milken should still clear around $1bn of the estimated $2bn he accumulated while at Drexel Burnham Lambert. He may lose his hair, but he will still be earning roughly $250,000 in interest every day.

Off the rails

■ London commuters vexed by long gaps between Underground trains may be baffled by monthly figures showing most lines operating nearly 100 per cent of scheduled mileage. An insider tells me there is a simple explanation for the discrepancy between theory and reality.

What the figures do not show is that there is a big difference between reliability in the off-peak periods and reliability in the rush hour. It is fairly easy to run 100 per cent of train mileage when the strain on the system is light but in the rush hour, one small hiccup throws schedules into chaos.

Predictably, the result is that rush-hour reliability is well below the 100 per cent level. Further, some rush-hour trains get delayed so badly that they get pushed into the off-peak periods, so boosting off-peak scheduled mileage above the 100 per cent level.

The average over the day may therefore come out at just below 100 per cent, but since more people travel in the rush hour than outside it, this figure disguises the fact that the majority of passengers experience a somewhat poorer level of service than the figures suggest.

As somebody might once have said, there are lies, damned lies, and London Underground performance statistics.

Out of gas

■ The ability of Japan Railways to make the trains run on time surpasses even Mussolini's. Nevertheless, not even JR is perfect.

The other day, East Japan Railway Company had to apologise when a train ran out of fuel in the wilds of northern Japan.

As stranded passengers looked on, railway staff went to a local petrol station, filled up four drums with diesel oil and hauled them back again.

"Typical – you wait years for a bandwagon, then three come along at once.

It was nearly 2½ hours before the train resumed its journey.

Status symbol

■ Still in Japan, Shijuro Ogata, the amiable deputy governor of the Japan Development Bank, has just taken delivery of a Mercedes Benz. Nothing much unusual about that: hundreds of top Japanese bankers and industrialists have themselves chauffeured about Tokyo in imported luxury cars these days. For the JDB, however – a government institution set up to develop Japanese, not German, industry – it represents a revolution.

In recent years, the JDB, having less and less to do, has embraced a new policy of promoting foreign businesses in Japan. Nevertheless, Ogata's colleagues were appalled when he suggested the Mercedes. Ogata says that, after two months of argument, he only brought them round by pointing out that similar displays of disloyalty had already become evident at MITI (the Ministry of International Trade and Industry).

Even so, the JDB's senior officials protested, the budget for a big Toyota would only stretch to a small Mercedes. "Status is lodged in the individual, not in his car," Ogata replied. His colleagues were still fumbling for a suitable reply as he picked up the 'phone to the showroom.

Beaten under

■ It was a bad weekend to be an English visitor in Australia. The news from London that Australia had beaten England at netball was probably bearable: but then things started to get serious. First, the Kangaroos beat the British Lions in the final Rugby League test match, to take the series 2-1. Next, in Australia, the home team romped to victory in the world hockey tournament, with Britain nowhere. Then worst of all, Australian openers Geoff Marsh and Mark Taylor outscored the entire England cricket team to win the first of the Ashes series in Brisbane by 10 wickets in just three days.

To add insult to injury, the Australian horse Better Loosen Up won the $1.1m Japan Cup in Tokyo, with the British horse Cacoethes third. Also ahead was Ode, the French entry, which finished second. One small consolation: at least the British horse beat the Japanese.

Green guns

Environmentally-friendly battle tanks – that's what the Germans are going to have.

Graham Birch, analyst with the Ord Minnett financial services group, draws my attention to the fact that by 1995, all German army vehicles are to be fitted with pollution-control catalytic converters. The first tanks will be fitted with platinum catalysts this week.

"Whatever next?" asks Birch. "Rubber-tipped shells?"

David Goodhart contrasts the contenders for chancellor in the all-German elections

Kohl awaits his crowning moment

Mr Oskar Lafontaine, the Social Democrat challenger to Chancellor Helmut Kohl in next Sunday's all-German election, looked rather embarrassed as, flanked by two green fairies, he waited for the dancer to wobble off-stage in her bikini. And well he might have.

The German Social Democrats (SPD), one of the oldest, largest and most sophisticated parties of the centre-left in Europe, felt compelled to hire a (not very good) circus to attract voters to its main election rally last week in Chemnitz, east Germany.

Chemnitz, once the "Manchester of Germany" and a social democrat stronghold in the 1920s, has, like the rest of east Germany's southern industrial belt, become an electoral desert for the SPD. The party's vote in the town scarcely reaches 15 per cent and it has only a few hundred members – hence the circus, which drew about 3,000.

The political geography of towns like Chemnitz is part of the reason why Mr Kohl's centre-right coalition has, for months, been assured of victory and why the election has been relegated to an afterthought in an historic year.

Mr Lafontaine has put up a spirited fight over the past few weeks, roaring around east and west Germany in special trains packed with journalists. But the result is such a foregone conclusion that reporters have been more interested in speculating about whether 47-year-old Mr Lafontaine will be able to fight again in 1994.

The consensus is that he will, at least if the SPD sinks no lower than 35 per cent in the poll (in 1987 it scored 37 per cent). In favour of Mr Lafontaine is the fact that he has a bed-rock of support among the younger generation of party leaders and no obvious challenger. Mr Gerhard Schröder, premier of Lower Saxony, and a Lafontaine supporter, says: "Lafontaine is the SPD leader for the 1990s – who else?"

Paradoxically, 60-year-old Mr Kohl's future seems less certain. He has been dodging questions about whether he will stand in 1994 and one adviser even predicts that he will stand down, or be forced to stand down, before then to make way for a technocrat from the liberal wing of his party, better equipped to drag east Germany out of the mire.

He would most likely have gone already if not for the lifeline of unification. Even political opponents concede that in the past year Mr Kohl has transcended the "power for power's sake" juggling of the past eight years and has been actually shaping events, especially in his decision to press for early currency union.

The result is that for the first time, his own poll rating is higher than his party's, and his self-confidence has grown. He remains a politician of instinct rather than vision, as one adviser admits, and his soporific election speeches still leave many of his supporters a little disappointed. But those instincts – for homely patriotism and steady-as-she-goes optimism – are tailor-made for this election. His "strategy" has consisted of sitting at home receiving heads of state (Presidents Gorbachev and Bush) avoiding a TV debate with his more articulate challenger, and trying not to make blunders.

The jubilation of earlier this year has evaporated but his rallies remain well attended in the east where he responds to his audience's yearning for an economic future and a spiritual past with nostalgic stories about post-war reconstruction in west Germany. In the west the tone is more "you've never had it so good". As his own contributions, he cites standing firm on stationing medium-range nuclear missiles in the early 1980s and creating eight years of economic upswing which will make bearing the cost of unity easier.

By contrast to Mr Kohl's competent but humdrum addresses, Mr Lafontaine's speeches are a *tour de force*, spoken without a note. He pours scorn on his opponents and has his mainly young audiences rocking with laughter as he mimics Mr Kohl. With no possibility of winning, Mr Lafontaine, the dandy intellectual, seems to be enjoying the campaign. Presenting himself as an apostle of enlightenment, standing by the post-nationalist, post-materialist values of the west German left which have been temporarily obscured by unification, he hopes to turn defeat into victory of a sort.

Oskar Lafontaine (left) has no hope of wresting the chancellorship from Helmut Kohl

"I make no apology for starting with an issue that has been sadly neglected over the past few months – the environment," he begins his speeches in west Germany before launching into an explanation of the SPD's proposals for green taxes. He goes on to deflate the new nationalism. "Singing hymns and waving flags does not solve problems ... 1989 was not the year of the Germans, it was the year of the peaceful revolutions throughout eastern Europe."

Mr Kohl responds to eastern audiences' yearning for an economic future and a spiritual past

And then he turns to his favourite theme: the government's "lies and evasions" over how to pay for unity and the crippling legacy of an enormous public sector deficit.

Mr Lafontaine's tone and emphasis in east Germany is slightly different. Speaking in the half-filled canteen of a doomed chemical works in Böhlen, he adopts a more professorial manner, explaining aspects of the west German tax or social security system.

He says he will not, unlike Mr Kohl, make promises that cannot be fulfilled. He points to the government's lack of an industrial strategy to deal with economic collapse in east Germany and stresses the SPD's experience in creating jobs in the depressed regions of west Germany. He is relaxed, convincing, constructive. "If he had been like this for six months we might have stood a chance," says an SPD official.

Moving on to a packed hall in the industrial town of Aue, he berates Mr Kohl for breaking his promises to the car workers of nearby Zwickau and for not subsidising east Germany's export contracts with the east bloc. Here, as elsewhere in east and west, he gets the biggest cheer for his attack on the five east German ministers without portfolio in Mr Kohl's cabinet, all paid DM32,000 a month.

Later in Chemnitz he talks about his cautious approach to currency union in the summer. "I wanted to stop what has happened – a boom in the west and collapse in the east," he says. Mr Lafontaine believed, and still believes, that currency union was a mistake. He would have preferred a fixed exchange rate, at 1 DM to 4 East Marks, and a gradual raising of productivity in the east before full union. In his recent book German Truths, a rather woolly work, he states that he would have preferred a form of confederation with east Germany rather than full unity at a time when the old nation state is being dissolved into a United States of Europe.

Given such unrepentant opposition to swift currency union and full national union, for which there was overwhelming support in east Germany, it is not surprising that east Germans find him less appealing than west Germans. "You don't elect someone to complete something he opposes," says one critic.

The Lafontaine campaign has been a curious mixture of the brave and the foolish. It was not helped by the near-fatal attack on him last April, or by the half-hearted support from sections of his own party – particularly members of the older generation who find him too negative about unity. Mr Lafontaine's critics are probably right to claim, however, that his abrasive personality has made defeat heavier than it might have been.

Such critics say that he could have been more enthusiastic about the newly won freedom for east Germany without conceding anything to the new nationalism. Also his stress on the costs of unity has left the impression that he did not want to pay at all, without improving the SPD's reputation for economic competence. "Why did he not use a bit of imagination and link the green taxes to paying for unity?," asks one critic.

The international political and diplomatic establishment will no doubt be happy not to have the former left-wing critic of Nato in charge of Germany. He remains strongly opposed to a wider military role for the Bundeswehr, even with UN peacekeeping forces, and says that Germany is carrying its burden by paying large sums ("more than the Americans in the Gulf") to the Soviet Union.

Given the difficulties ahead in east Germany it may be a good moment to be in opposition, and by 1994 his lack of sympathy for the rush to unity may be irrelevant. On the other hand, some party officials fear that the SPD may be denied power for a generation as the CDU presides over a second economic miracle in east Germany or benefits from a drift to the right in response to hard times.

LOMBARD

How to preserve the Thatcher legacy

By Samuel Brittan

A nation is nothing but a collection of individuals.
David Hume, "Of National Characters"

Margaret Thatcher ran into trouble with the chattering classes by saying that there is no such thing as society, only individuals and their families.

Yet it is one of the prime minister's best sayings and indubitably true. It is only individual people who can suffer pain, experience happiness, exult, compose great symphonies, or even feel emotions such as patriotism. The proposition is important because whole philosophies and religions have been devoted to denying it; and the war cemeteries of the world show the effects of its negation.

Nor is there anything selfish in it. Individuals are capable of feeling sympathy and compassion for other individuals. Such feelings are the bedrock of personal friendship, private good works and the Welfare State alike. Slogans about citizenship, rights and duties can be made meaningful to the extent that they are a translation of such feelings into more abstract form.

Readers will notice the striking similarity between the Thatcher statement and the quotation from the greatest of all British philosophers at the head of this article. But there is one difference. Hume talks of "nations" and the prime minister of "society". Individualist conservatives tend to have a blind spot in all things to do with patriotism and national sovereignty. But this is not the occasion to develop my reservations, which apply even more to traditionalist or One Nation Tories than they do to Mrs Thatcher.

Someone who thinks in terms of individuals is likely to respect their choices. Of course people will make mistakes, but the individualist will put the onus of proof on to those who want choices to be overriden for the sake of a supposed greater good.

Mrs Thatcher's greatest achievements have been where she has followed her free choice instincts. Her failures have been where she has tried to impose ideas of preferred behaviour – for instance in her attachment to all the tax measures which favour home ownership over renting, or to her insistence on regulating the content of broadcasting.

There is a further individualism which is partly empirical in nature. This is that people will often serve their fellow men and women better if they follow their own self chosen interest than if they seek to trade in the so-called public interest. Care needs to be taken here. What Adam Smith called the principle of Natural Liberty does not apply to all cases. And a great many surrounding conditions need to be right: a framework of law, sound money, and nowadays measures such as congestion taxes (which do not come naturally to British Prime Ministers) to harmonise private interest and the good of others.

Mrs Thatcher has demonstrated how much of the supposed agenda of government can be returned to the markets. Pay, price and dividend controls have disappeared, unmourned. Entry barriers have been removed in areas ranging from financial services to opticians, estate agents and bus companies. There has even been a nibble at the restrictive practices surrounding the law. Tax incentives to buy fancy equipment have been replaced by low corporation tax. The biggest constraint on freedom and efficiency, namely exchange control, was swept aside in the first year of office by Mrs Thatcher, Sir Geoffrey Howe and Nigel Lawson working in halcyon harmony.

TEENAGERS' UK TRADE GUIDE
(Ann. vol. % change; exc. oil and erratics)

	Imports	Exports
1986	+7.1	+2.4
1987	+8.9	+7.6
1988	+14.6	+4.4
1989	+7.3	+9.2
1990		
Jan-May*	+5.2	+9.2
Jun-Oct*	-1.4	+2.5

Source: Central Statistical Office

But has it all not ended in a mess? It is not only the left wing critics who talk like this, but devotees of particular schools of parochial monetarism who cannot see the wood for trees. There is always a phase in the business cycle when recession strikes, but inflation is still high under the influence of the previous boom. Stagflation has been exaggerated, as on other past occasions, by an oil price explosion, and also the very strength of the previous boom which encouraged re-equipment and expansion.

The payments deficit mattered mainly because it was a sign of inflationary pressure. The rapid deceleration in import volume shows boom changing to recession. The lesser tailing off in exports shows that the slowdown is international. But the idea that nation's overseas current account is equivalent to a firm's profit and loss is a collectivist fancy which Mrs Thatcher has not been Thatcherite enough to jettison.

Much more important has been that "the underlying profitability of firms has improved, as have labour productivity and working practices" – to cite the new National Institute Economic Review, which is not given to unwarranted praise of the government. A quantitative verdict will not be available until after the recession and subsequent upturn, well into the 1990s.

Meanwhile is the legacy safer under an exponent of Euro-nationalism, which is no better than the domestic variety, or under an old school Tory paternalist? The Chancellor, John Major, emerges as the obvious choice, partly through a process of elimination. Despite some unfortunate speeches against EMU, such as the one at Llandudno in June, the Chancellor has actually taken Britain into the exchange rate mechanism of the European Monetary System; and he may come to disappoint his Bruges group supporters as he responds to the pressure of events.

LETTERS

Leader comment on Burma "short-sighted and ill-advised"

From Zaw Win.

Sir, I write to protest most strongly your leader "How best to help Burma", November 14.

As the leader of the Myanmar delegation made clear in his recent statement to the UN general assembly, the Myanmar government, having fulfilled its promise to hold free and fair multi-party general elections, is now taking firm and systematic steps towards the establishment of a stable and enduring democratic state.

For that to happen, a constitution needs to be written and plans are being developed for the holding of a national convention to advise the elected representatives of the Pyithu Hluttaw (People's Assembly) on the factors it will need to note in drafting a constitution.

Regarding political conditions in Myanmar, your editorial comment fails to acknowledge the steps being taken toward the establishment of a firm and lasting multi-party democracy. As the history of many other countries around the world reveals, the mere transfer of power from a military regime to civilian politicians is no guarantee of lasting democracy. The Myanmar government is moving forward, step by step, toward that goal.

In your short-sighted and ill-informed advice for businessmen to "boycott" my country and its economic potential, you fail to note the important steps that have been taken to create the market economy necessary for genuine democracy to flourish.

Would you advise businessmen in future to invest in Myanmar if it were to become politically unstable because of the absence of a popular government under a firm constitutional legal order? Most discerning FT readers know the answer.

Zaw Win,
Embassy of the Union of Myanmar, 19a Charles Street, W1

A challenge for the EC competitions commissioner

From Mr John Boyd QC.

Sir, Jonathan Faull ("One stop shopping for mergers", November 14) confirms that the voluminous information about prospective mergers notified to the European Commission will be copied on to the national authorities in each member state. This, he says, will give these authorities all the information they will need, so helping bring about the much desired one-stop shop.

Whether this result is achieved remains to be seen. It may, however, have a consequence of quite another kind. The copying of this information about intended mergers will create a community of insiders in every member state. Their number will probably total several score, possibly a few hundred. Since this market-sensitive information may relate to a merger which has not been announced, there must be a risk that someone in this community of insiders will use or disclose it improperly.

We invite the competition commissioner to declare publicly what steps he is taking to ensure that the risk of improper disclosure is minimised.

John Boyd,
chairman, CBI Competition Panel, Centre Point, 103 New Oxford Street, WC1

UK electricity price ratio still rock-bottom

From M.J.S. Gibbons.

Sir, At the beginning of this year ("Building on the UK's natural energy resources", January 30) I wrote to you concerning the ratio between domestic and industrial electricity prices. In view of the interest in that letter and the current interest in electricity issues I believe your readers would be interested in a further and wider analysis carried out by the VIK, Essen and based on Unipede data.

ELECTRICITY PRICES (domestic/industrial ratio '88: Industrial = 1)

Denmark	3.14
France	2.30
Belgium	2.21
Italy	2.14
South Korea	2.00
Holland	1.83
Japan	1.79
Austria	1.70
Luxembourg	1.69
Spain	1.62
Ireland	1.60
Switzerland	1.58
Norway	1.55
Quebec	1.53
Germany	1.53
UK	1.47

Only Greece, Portugal and Israel had a lower ratio

My previous letter referred to 1986/88 data from the IRA; this source indicates that for 1990 Australia, USA, Finland, New Zealand, Sweden and Portugal also exhibit a higher ratio than the UK.

The conclusion of such analyses remains as before: the UK ratio is one of the smallest in the markets with which our industries seek to compete. The evidence that other systems tend to allocate their costs differently between classes of consumer is no surprise to large users of electricity in this country. The surprise, in fact, is that some British commentators appear to believe that large users have secured an advantageous position, in relative terms.

M J S Gibbons,
Energy Policy & Purchasing Manager, ICI Chemicals & Polymers, P O Box 90 Wilton, Middlesbrough, Cleveland

Back to the Magna Carta

From Mr Peter Wood.

Sir, There is a certain irony in your decision ("Europe's Magna Carta", November 22) to endorse the notion of the CSCE Charter of Paris as a "Magna Carta" for Europe after a period in which Magna Carta has been used parochially as a stick to beat Europeans.

Magna Carta was not, of course, a revolutionary declaration of the rights of man, and its import undermines the hollow political rhetoric that misuses it today. The spirit and much of the letter of Magna Carta is that of consultation.

The idea of the 1260s, that England should no longer be a place of warring factions but a single community bound in a common interest, is perhaps the point we have once again reached after a long diversion?

Peter Wood,
Newbold Farm, Duntisbourne Abbots, Cirencester, Glos.

Appointment of Barrell to safety division to be welcomed

From T.J. Evans

Sir, The chemical engineering profession will welcome the news reported today that Mr Tony Barrell, the HSE's Director of Technology, has been appointed head of the new Offshore Safety Division within the Department of Energy.

Within the body of the Cullen report into the Piper Alpha Disaster, it is pointed out that the Department of Energy had been unable to recruit process or chemical engineers as inspectors, and that none of its inspectors had any experience in the scrutiny of hazard and operability studies (Hazops) which have been a key element of safety cases prepared to support onshore hazardous industrial plans.

Mr Barrell, who is a chemical engineer himself, has been educated and trained within this tradition and has reinforced the Chemical Engineering profession's own commitment to safety and environmental topics as a member of the institution's council and Safety Health and Environmental Policy Committee.

While the lessons from the investigations of the Piper Alpha Disaster will undoubtedly lead to improvement in safety offshore, Lord Cullen recognised that the prevention of accidents in industry at large is finally dependent on the approach and quality of the management of safety by each and every operator.

Suffice it to say that safety is also as much a boardroom issue. The cost of our oil should not be counted in human terms.

T.J. Evans,
general secretary, ChemE, Davis Building, 165/171, Railway Terrace, Rugby

FINANCIAL TIMES
Monday November 26 1990

Bush charts steady course toward conflict

Peter Riddell reports on the president's preoccupation with the crisis in the Gulf

PRESIDENT George Bush is moving steadily towards military action in the Gulf early in the new year, if not earlier.

That is the inescapable conclusion from observing him on his hectic six-nation tour of Europe and the Middle East and from seeing the scale of military preparations in Saudi Arabia.

No decisions have been taken and there are plenty of hurdles to be overcome – in terms of international and domestic support – before such an order is given. And Mr Bush could be finessed by President Saddam Hussein if the Iraqi leader can devise a compromise with support from enough Arab states.

But Mr Bush's references to a peaceful or diplomatic solution look increasingly perfunctory and he is boxing himself into the military option. This impression of the crisis entering a new, and critical, phase was reinforced yesterday when Mr Brent Scowcroft, the president's national security adviser, talked of a common feeling that "it needs to be brought to an end".

The Gulf crisis is Mr Bush's central political concern. As he remarked to one reporter who wanted to ask him a non-Gulf question, about Mrs Margaret Thatcher, "there is no such thing as non-Gulf".

Wherever he spoke, from the chill of Wenceslas Square in Prague to the heat of Dhahran in the Saudi desert, Mr Bush referred to the crisis.

He proclaimed the support of east European leaders such as President Vaclav Havel from countries which had themselves suffered appeasement. A by-product was that far-reaching issues of transatlantic relations raised at the Paris conference were largely ignored on the US side.

As the week went on he sounded increasingly impatient. In Paris last Monday he said there could be "no compromise; you cannot reward aggression. It simply cannot go on forever and won't go on forever".

By Wednesday evening, in Jeddah, he was saying that "steps need to be taken right now in order to make these options [including military] credible and effective".

On Friday in Cairo Mr Bush said he was "getting tired of the status quo, and so is the rest of the world".

The UN Security Council, he said, "is getting tired of the fact that resolutions calling for immediate withdrawal haven't been implemented. I am getting increasingly frustrated about the treatment of the US embassy [in Kuwait] and the treatment of innocent hostages". He also sought to rule out any fudged deal.

After his meetings with Egyptian President Hosni Mubarak and Syrian President Hafez al-Assad, strong statements were made jointly ruling out partial solutions and stressing the need for complete withdrawal from Kuwait.

Mr Bush underlined the dangers of inaction by his warning that "those who would measure the timetable for Saddam's atomic programme in years may be seriously underestimating the gravity of the threat. Every day that passes brings Saddam one step closer to realising his goal of a nuclear weapons' arsenal. And that's why more and more, your mission is marked by a real sense of urgency".

Kuwaiti foreign affairs minister Sheikh Nasir Mohamed Al-Sabah in Singapore yesterday where he complained that visits to Baghdad to win the release of hostages held by Iraq were tantamount to "kneeling" before Saddam Hussein

THE message was unmistakable. The immediate aim was to prepare the way for an early UN resolution ratcheting up the pressure on Iraq and permitting additional action. While probably not as explicit an authorisation of military force as the US originally hoped, such a resolution would be treated by the Bush administration as the basis for such action.

This resolution will be used by the administration to win congressional and US public support for military action.

Democratic leaders accompanying Mr Bush on his Thanksgiving Day visit to the forces were cautiously non-committal. A key event this week will be hearings being held by Senator Sam Nunn, chairman of the armed services committee, who has so far expressed reservations about the addition of between 150,000 and 200,000 troops to the 230,000 already in the region.

MR Bush has not so far persuaded the American public of the need to attack Iraq. He tends to hold up a variety of reasons – aggression, the hostages, and Iraqi atrocities in Kuwait – although warnings about Iraq's nuclear capabilities may strike a chord, according to polls.

The other strong pressure against waiting for sanctions to bite is the number of troops in Saudi Arabia. The scale of the build-up is much greater than it appears on television; huge transport aircraft landing constantly and miles of canisters covered by camouflage netting.

The impatience of the forces was expressed to any reporter who asked. As one marine said: "I'm ready to get busy." Mr Bush himself said that, "like their president, I sense a certain resolve on their part that if they have to do something they're prepared to do it. And they want to do it fast and get it over. I can understand that."

All this can be seen as an exercise in making the military option credible and forcing Iraq to withdraw. But it also increasingly looks that if this does not happen, President Bush will have little option but to attack.

Gulf news, Page 3

Employers say UK faces deeper recession

By Edward Balls in London

THE UK recession will be deeper and longer than both the government and London's financial analysts have forecast, according to a pessimistic economic forecast by the Confederation of British Industry (CBI), the country's employers' organisation.

The CBI's monthly industrial trends enquiry says output expectations have fallen to their lowest recorded level since December 1980.

With exports coming under increasing pressure since Britain's entry into the European exchange rate mechanism, the the CBI's latest quarterly economic forecast, published with the industrial trends enquiry, expects gross domestic product to contract by 1 per cent in 1991.

In August the CBI predicted growth of 1.3 per cent next year.

The trends survey shows that slower growth in several foreign economies is depressing exports, while domestic demand remains stagnant because of the effect of high interest rates.

The CBI is considerably more pessimistic about the outlook for the economy in the next year than other forecasters, particularly the latest Treasury forecast, which predicted GDP growth of 0.5 per cent next year.

The forecast – which is based on the assumption that there will not be a war in the Gulf – suggests that the victor in the contest for the Conservative party leadership will inherit an economy which will not start to grow again until the final quarter of next year.

This latest CBI forecast follows the announcement last week that national output fell in the third quarter of this year, the largest fall since the last recession in 1980. The CBI says this fall will be followed by four successive quarters of declining output.

Mr David Wigglesworth, chairman of the CBI's economic situation committee said the inevitable result would be a squeeze on profit margins, lower investment in modern machinery, lower pay settlements and higher unemployment. The CBI forecasts a rise in unemployment above 2 million by 1992.

There are some hopeful signs for the government that the rash of bad economic news may be tempered by some good. The CBI expects retail price inflation to 5.4 per cent by the end of next year.

The fall in demand should lead to a sharper fall in imports and the current account deficit than the Treasury has forecast, the CBI says. However exports will also suffer from declining world trade.

CBI officials said the most recent meeting of its economic situation committee heard reports of the first signs that the the downturn may be "bottoming out" in the sectors worst hit so far. In those sectors activity is "depressed but not deteriorating", CBI officials said. One indication is that the number of companies reporting excessive levels of stocks fell slightly in November compared to October.

Quarterly results, Page 8

Major and Heseltine lead race to be UK premier

Continued from Page 1

the public contest was belied by an "off-the-record" propaganda war by the campaign teams and Mr Heseltine was said by his opponents to have suffered from a backlash among local party activists for his role in deposing Mrs Thatcher. Mr Major was accused of being in the "thrall" of the far right of the party.

Mr Heseltine rejected the suggestion that Mr Major had moved decisively ahead in the contest, voicing confidence that he would build on the 152 votes he received against Mrs Thatcher last week.

His campaign was boosted by weekend endorsements by Mr Nigel Lawson, the former chancellor, and Sir Geoffrey Howe, the former deputy prime minister. Amid scarcely-controlled anger in Mr Major's camp, Mr Lawson said Mr Heseltine's endorsement of an independent Bank of England showed his commitment to the fight against inflation.

Mr Heseltine said in his interview that an independent central bank would "give the clearest signal that you believe in sound money".

He firmy rejected claims from the right of the party that he would reverse the progress towards economic liberalisation made by Mrs Thatcher's sucessive governments. "There is no question of hesitating, or abandoning what we have achieved. It was too tough to achieve to think of abandoning it".

Mr Heseltine also claimed his first cabinet-level endorsement yesterday, when Mr David Hunt, the Welsh secretary, announced his support.

Mr Major's success has been based on his ability to attract the votes of a large number of the MPs who voted for Mrs Thatcher last week, and on his appeal as a candidate who will appeal to the younger generation of voters.

His opponents, however, said he had made a tactical error in becoming too closely associated with the right.

Anchorman steals the show in Tory race

By Christopher Dunkley, Television Critic, in London

TO THE unenfranchised viewer, slumped at home watching the three would-be leaders of the Conservative party pitching to the 372 Members of Parliament who do have votes, yesterday's current affairs programmes on British television showed that one politician alone stands head and shoulders above the others. He is quick, articulate, witty, and a master of every television technique.

Unfortunately he comes from the wrong party and now spends his time asking the questions instead of giving the answers: Brian Walden, the former Labour MP turned political interviewer has a reputation large enough for the independent television network to reward him with a programme named 'Walden'.

Can Mr Michael Heseltine, Mr Douglas Hurd or Mr John Major ever hope for such fame? The two who fail to become prime minister will probably never again receive the sort of attention that has been focused upon them by the media in the last few days. Even the winner will repeat the experience only under the most extreme circumstances, possibly when his own premiership comes to an end.

And what has television taught Britons about their next leader? Anybody who watched On The Record, the BBC current affairs offering, or 'Walden' knows that the next prime minister will be a middle-aged male who speaks in the accents of the English southern counties. To the extent that any politician – by definition power-hungry, bossy and opinionated – can be a nice man, they all seem like nice men.

They also seem peculiarly unreal, all three, and that is not solely a result of over-exposure on television, because Margaret Thatcher has always seemed all too terribly real. In part it could be that women wear make-up all the time, whereas men put it on only for major television interviews, so that we suddenly notice an oddly smooth orange sheen to their faces. But yesterday it was also because each one was desperate to sell himself to those 372 buyers at Westminster.

The result was bizarre, like an episode from a 1960s American television fantasy series like Night Gallery or The Outer Limits. Just as it slowly becomes apparent in those stories that alien beings are inhabiting human bodies, or that people have been transported through a time-warp and adopted different personalities, so we seemed to be faced with three people determinedly playing unnatural roles.

John Major, with that odd plastic cap of a hairdo, and the uncanny absence of body movements, comes across like an animated puppet. The impression of an automaton is enhanced by robotic speech patterns: he delivers English as though he had learned it as a foreign language, or even as though programmed with it, never saying "Er . . ." or starting one sentence before finishing another.

Douglas Hurd, in a blue V-necked pullover, striped shirt and tie for his BBC television interview with Jonathan Dimbleby, and a grey suit, lemon yellow pullover and red tie for Walden (who had the chutzpah to call him "colourless") looks for all the world like someone cast by a studio to play a school teacher in one of those Edwardian steam train dramas that British television does so well; urbane, relaxed, and really not that concerned if he never makes headmaster.

Michael Heseltine's television drama is much more up-to-date: he looks like a character from one of those yuppy series where everybody talks about print-outs and the marketing mix, and spends a lot of time on the telephone in the Porsche discussing statistics. He was the only one of the three who even momentarily stopped talking direct to the 372: Walden needled him enough to produce a touch of anger.

Such reality seemed wholly out of place in this, the best new soap opera to hit the screens for years.

Spanish property tax angers city mayors

By Peter Bruce in Madrid

MAYORS of at least three large Spanish cities urged citizens at the weekend to resist the imposition of greatly increased rateable values on property.

The Socialist government, which is trying to modernise the obsolete property tax base, wants new money raised through the new values to be used to increase the financial autonomy of local governments.

But the mayor of Madrid has urged owners to flood the courts with legal challenges and the mayors of Seville and Valencia have threatened to do the same.

A modern tax base is critical to the establishment of independent local authorities capable of raising sufficient revenue to provide basic services such as garbage collection and sewage filtration that are still rare in Spain, even in relatively big towns. It is assumed that true financial independence would help end rampant corruption in Spanish local government.

The country's revenue service is still completing the first full survey of land for taxation which has involved comprehensive aerial photography.

The authorities believe current rateable property values in Spain – most established before the Spanish Civil War – are worth less than one-twentieth of average market values and, earlier this year, were hoping to bring them to within 70 per cent of market prices by the end of next year. For the moment, they appear to be attempting to push taxable values up to about a third of market prices.

Owners are complaining, though, that the market has begun to collapse, making the new values even more unfair.

It will also be illegal soon to declare property sale prices below the official value, terminating a widespread capital gains tax fraud. Right-wing opposition leaders have warned the new values could be the Socialist government's "poll tax" and become the issue that trips it up.

● Spain's United Left (IU) coalition yesterday re-elected Communist Party leader, Mr Julio Anguita, at the end of a two-day national congress which rejected co-operation with the Socialist government, Reuter reports from Madrid.

THE LEX COLUMN

A market short of perfection

The idea that markets efficiently discount all known information took another knock in London last week. WPP, the advertising and marketing group, announced that market expectations for its full year profits were too high. The true figure, it hinted, would be some 20 per cent lower. The shares promptly lost two thirds of their value.

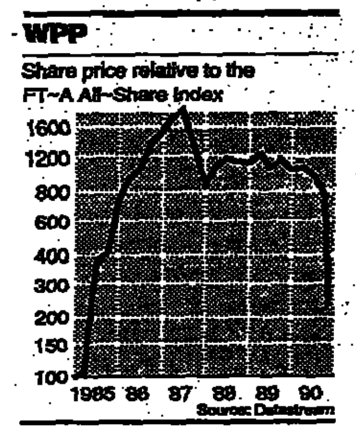
The problem this raises is best illustrated by the yield. At the start of the week WPP was on a running yield of 11 per cent, suggesting mild uncertainty about the final dividend. By the end of the week it was on 26 per cent, suggesting the market thought it was going bust. But it should not have been news to the market that a labour-intensive business like advertising has high operational gearing and is therefore vulnerable at this point of the cycle. The effect in WPP's case is compounded by high financial gearing. But its debt was plainly displayed in the accounts.

The abrupt change of valuation is embarrassing for brokers' analysts, many of whom argued until the last minute that WPP would escape the problems of its industry. But analysis of the agency sector is not noticeably poorer than average. Nor are investors wholly dependent on what analysts tell them. There may be an analogy in the more extreme but similarly perplexing case of Polly Peck, where the market was lulled into uncritical belief in the powers of the chairman. Had it not been for the confident assertions of Mr Martin Sorrell, it is not easy to see how the market could have so underestimated the fundamental risks in WPP's financial structure.

But even the underestimation is hard to quantify. It would be easy to compile a list of companies with risk characteristics similar to those of WPP at this stage in the cycle: high debt, operational gearing and so forth. Most of them would probably be on the kind of rating WPP was on a week ago. But that would not make it safe to go short of their shares; the disaster might never happen. It is easy with hindsight to see what went wrong with WPP. It is less easy to say what the market should have done about it.

WPP

Share price relative to the FT-A All-Share Index



Enimont

Perhaps the wrong European prime minister resigned last week. The premier who surely should have gone was Italy's Mr Andreotti. That is one's first reaction to the deal in which Mr Andreotti's civil servants at ENI, the state energy group, are buying out Montedison's 50 per cent stake of their joint-venture company Enimont, Italy's leading maker of commodity chemicals. World-wide, the bulk chemical trade is in severe recession. ICI and the three German majors are all hurting badly. Such is the plight of the industry that shares in BASF, Bayer and Hoechst are trading at 20-year lows against the Frankfurt stock market, and ICI is at an eight-year low against the FTA-Allshare. And yet the Italian state is to pay L1t2,800bn for half of a loss-making business, burdened with inefficient plant in odd parts of southern Italy and with a huge heap of debt. No wonder that shares in Montedison and its holding company Ferruzzi Finanziaria rocketed up on the Milan bourse on Friday.

The net effect of the deal is all to Montedison's benefit. Not only does Montedison exit the bulk chemicals business; it also receives sufficient cash to clean the debt off its own balance sheet, thereby perhaps doubling its earnings. As for Mr Raul Gardini, Ferruzzi's former president, the fact that he has now resigned from its board scarcely means that he will lose any of his influence over the group, or his role in the Italian food industry. He will still be the uncrowned king of parts of European agribusiness, through the richly cash-generative Eridania and Béghin-Say sugar companies and Ferruzzi's clutch of starch and edible oil concerns.

Last week's episode, and the two years of wrangling at Enimont which preceded it, have wider implications too. No-one seriously expects Italy to start a rapid, wholesale dismantling of its over-sized state sector. But it is depressing to see it still in the business of actively nationalising things. This bodes especially ill for the labour market – the Italian economy's Achilles' heel – which is largely driven by the wage demands of workers in the state sector.

BES

A brief look at the latest figures on the Business Expansion Scheme is enough to suggest that in addition to failing the small companies which genuinely needed growth capital, the scheme has failed investors. The problem has not been confined to the loopholes which skewed the entire scheme in favour of property rental after 1988. It extends to the way the intermediaries marketed the companies to investors as serious tax dodges, rather than as serious investments.

Of the 209 companies taken up by the scheme at the outset in 1983, 69 have gone bust. That appears much better than the near 80 per cent of small companies which are thought to stop trading after seven years. In theory, however, by their access to capital on the right terms BES companies were given a better chance of survival. A 33 per cent failure rate is particularly worrying because investors generally lose everything. The figure for 1984's crop of 264 companies is only 20 per cent so far. But as the recession deepens, failure rates will doubtless climb rapidly.

An excellent case in point is Corinthian Construction & Development, a contractor floated in 1987 by Chancery Securities. Its EGM last week disclosed a string of disasters in what looks like a chronic case of bad management unhindered by an impressive set of non-executive directors.

The tendency for company sponsors to walk away from their charges once they have taken their not inconsiderable fees has been widespread. In part, the sponsors have simply been acknowledging the fact that the managers of BES companies are largely unaccountable. Where there is conflict between the board and the sponsor, there is little the latter can do. There is no visible share price to act as a measure of performance, while too many non-executive directors have drawn their salaries without helping to run the company. Often, the first sign investors have of trouble is a circular calling an emergency meeting. Typically, there will not be much subsequent information either. If the BES is to continue, it is due for an overhaul.

WORLDWIDE WEATHER

		°C	°F
Ajaccio	F	19	66
Algiers	C	17	63
Amsterdam	S	7	45
Athens	S	21	70
Bahrain	S	24	75
Bangkok	F	32	90
Barcelona	F	13	55
Beirut	-	-	-
Belfast	S	4	39
Belgrade	S	22	72
Berlin	C	5	41
Biarritz	C	9	48
Bombay	S	31	88
Bordeaux	F	8	46
Boulogne	F	8	46
Brussels	S	7	45
Budapest	F	11	52
Buenos Aires	F	31	87
Cairo	F	25	77
Cape Town	S	22	72
Caracas	C	28	82
Casablanca	R	15	59
Chicago	S	2	36
Cologne	S	8	45
Copenhagen	S	3	37
Corfu	F	20	68
Dallas	Fg	18	64
Dublin	S	3	37
Dubrovnik	C	19	66
Edinburgh	S	3	37
Faro	F	14	57
Florence	F	21	70
Frankfurt	C	5	41
Geneva	C	4	39
Gibraltar	S	15	59
Glasgow	S	3	37
Helsinki	S	-12	10
Hong Kong	S	23	73
Innsbruck	C	6	43
Inverness	S	3	37
Islamabad	F	19	66
Istanbul	S	19	66
Jakarta	C	32	90
Jersey	F	8	46
Johannesburg	S	29	84
Lima	C	20	68
Lisbon	F	11	52
London	C	5	41
Los Angeles	S	11	52
Luxembourg	R	4	39
Madeira	F	18	64
Madrid	F	8	46
Majorca	S	15	59
Malaga	S	15	59
Malta	F	23	73
Manchester	C	3	37
Manila	C	31	88
Melbourne	F	18	64
Mexico City	F	27	81
Miami	C	19	66
Milan	R	10	50
Montreal	R	1	34
Moscow	C	1	34
Munich	R	3	37
Nairobi	F	19	66
Naples	F	21	70
Nassau	C	26	79
New Delhi	-	-	-
New York	F	5	41
Nice	F	17	63
Nicosia	S	24	75
Oporto	S	10	50
Oslo	Sn	-5	23
Paris	Fg	3	37
Peking	S	15	59
Prague	R	3	37
Reykjavik	F	4	39
Rhodes	S	21	70
Rio de Janeiro	F	36	97
Rome	F	20	68
Salzburg	C	5	41
San Francisco	S	8	46
Seoul	C	6	43
Singapore	F	31	88
Stockholm	S	-4	25
Strasbourg	R	5	41
Sydney	S	20	68
Taipei	F	24	75
Tangier	F	14	57
Tel Aviv	S	25	77
Tenerife	Dr	21	70
Tokyo	S	13	55
Toronto	R	8	46
Tunis	S	24	75
Valencia	S	15	59
Venice	C	16	61
Vienna	C	7	45
Warsaw	C	5	41
Washington	S	4	39
Zurich	R	3	37

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS

 Monday November 26 1990

INSIDE

Standard sues PW for $800m damages

Standard Chartered, the international bank, is claiming $800m in damages in an Arizona court against Price Waterhouse, one of the world's leading accountancy firms. Standard, headed by Rodney Galpin (left), claims PW failed to give an accurate picture of finances at United Bank of Arizona, when advising Standard during its $335m acquisition of the bank in 1987. The case could render Price Waterhouse liable to punitive damages taking the potential award to $2.4bn. Page 22

Gilts ride high

It has been the best week for UK government bonds since the announcement of Britain's entry into the European exchange rate mechanism on October 5. Peter Marsh reports that traders took an optimistic view of the outcome to the Conservative leadership struggle, arguing that whoever takes over from Mrs Thatcher is likely to introduce greater stability into UK politics. Page 26

Apples and acorns

Apple Computer and VLSI Technology if the US are believed to be linking up with Acorn Computer of the UK to develop a new microprocessor to power the next generation of Apple personal computers. Apple has scheduled a joint announcement with VLSI for tomorrow, fueling speculation that the personal computer company will take an equity stake in VLSI, an important chip supplier to Apple. Acorn and VLSI jointly developed a chip called the Acorn Risc Machine in the mid-1980s. Page 22

Aberdeen pursues buy-out

Aberdeen Steak Houses, the London restaurant chain, plans to go ahead with its planned management buy-out despite increased losses for the first six months of 1990. A statement from chairman Ali Salih blamed the deterioration on the publicity given to "mad cow disease", and weakness in the economy. Page 22

Market Statistics

Companies in this section

Polly Peck may reveal source of profits increase

By David Barchard and Richard Waters in London and John Murray Brown in Nicosia

THE ADMINISTRATORS of Polly Peck International expect to make two significant breakthroughs early this week which could reveal for the first time the full picture behind the group's steady rise in reported profits throughout the 1980s.

Even though Polly Peck had a market value of nearly £2bn ($3.93bn) early this summer, and banks had lent it £1.3bn, little information has been available publicly about its operations in Turkey and northern Cyprus. Some senior executives in the group's London office have admitted even they were not given details of operations in the eastern Mediterranean, reported to have contributed £108m to pre-tax profits of £161m last year.

The first breakthrough is expected by the administrators today, when a court in northern Cyprus reviews an injunction which has prevented officials of Polly Peck's local subsidiaries giving any information. Mr Richard Stone, one of three administrators appointed when Polly Peck collapsed at the end of last month, was due to fly to Nicosia yesterday for the hearing and is confident the injunction will be lifted.

If so, the administrators will be able to clear up persistent speculation about the scale and profitability of Sunzest Trading, Polly Peck's Cypriot fruit exporter. Mr Asil Nadir, Polly Peck's chairman, last week predicted the company would ship close to 85,000 tonnes of citrus fruit in the current season.

This was the same as last year's figure, which sold for $70m, he said.

However, official statistics put Sunzest's exports from northern Cyprus at $13.5m last year. The disparity between the two figures has been said by Mr Nadir to relate to the difference between the cost of the fruit shipped from Cyprus and the price it fetches on the world market.

Administrators could yet be frustrated in their attempts to gain access to Polly Peck's Cypriot operations. Counsel for the citrus growers is expected to seek an adjournment today on the grounds that the administrators were late in filing an affidavit.

In the second expected breakthrough, administrators hope to complete a preliminary review of Meyna, Polly Peck's Turkish fruit business and the operation long regarded by outsiders as its biggest single profit earner. City analysts believe Meyna and Sunzest between them made anything from £50m to £90m in profits last year.

Official statistics drawn up by the Turkish Mediterranean Exporters Union put Meyna's exports at just 13,400 tons, a fraction of those of Sunzest.

Sources close to the administrators suggest that, although all the facts have still to be confirmed, the bulk of Meyna's operations – and profits – derived from the domestic Turkish market, rather than exports. If true, this will come as a surprise to the shareholders and bankers who have backed Mr Nadir in recent years, since Polly Peck has never said that it relies so heavily on the local Turkish market.

Mr Nadir himself, when declining in London earlier this month to give fuller details of Meyna and Sunzest, said: "Do you think that ICI reveals the profits it makes from one of its drugs?"

Frankfurt fights to regain bunds

Katharine Campbell and **Deborah Hargreaves** on a Liffe contract under fire

With a push of a computer button, Germany imported financial futures on Friday as Frankfurt's electronic trading system made a bid to win back German bond trading that has migrated to London.

Frankfurt is pitching its hi-tech computer system against the time-honoured trading methods that prevail in London's futures pits where contracts are exchanged in an atmosphere of raw capitalism. The battle will mark the first time in the world futures industry that a traditional open outcry market has competed for business against an electronic system.

Frankfurt's new exchange, the Deutsche Terminbörse, began trading options on domestic stocks last January and now its vastly expensive integrated trading and clearing system – the DTB is estimated to have cost between DM100m and DM150m ($67.3m and $101m) – is taking on the London International Financial Futures Exchange with one of its most successful products, a contract based on German government securities or bunds.

It has rankled the Germans for a long time that German bond prices are determined more often in London than in Frankfurt. Since Friday, Germany has its own copy of the Liffe product and its success will be crucial if the DTB is to grow into an internationally competitive, rather than a purely domestic, exchange.

The DTB made a promising start with options. Around 35,000 contracts change hands daily, representing an accumulated total of DM6.3bn in options premium. This is already more business than any other single European exchange sees in individual stock options. But the audience is principally domestic, and genuine profit-generating customer business is slow to develop.

Now the DTB is racing ahead with bund futures and a futures contract on the DAX stock index. But electronic futures systems are in their infancy, and it will be the first time a leading instrument has traded simultaneously on computer and from the traditional pit.

Outcry at Liffe: Frankfurt wants control of a bund product

It is a big challenge to Liffe's predominance. This year, the bund futures contract has been the exchange's flagship, beating its sterling contracts as the volume leader. With a volume of 8.3m contracts at an overall value of close to £60bn in the first 10 months of the year, bund futures account for a third of the exchange's business.

Mr Rolf Breuer, chairman of the DTB, is convinced of the technological superiority of his system and states Liffe "is only developing into a computerised exchange". (Liffe has an after-hours electronic system, modelled closely on the pit culture.) But traders, while conceding that computers may well suit the highly cerebral options business, point out that the lightning response crucial to futures trading is harder to achieve on screen.

Liffe is hoping that its fast response time will be its strong point. "We think open outcry will work better than a screen in periods of intensive trading," says Mr Michael Jenkins, chief executive of Liffe, "with a computer system it takes a long time to key in bids and offers".

At Liffe, contracts are traded by a flurry of hand signals and raucous shouting. It is a system where individual "local" traders are paramount. Many Frankfurt traders miss the rough and tumble of the floor and the buzz of excitement that comes from a stressful trading environment where millions of pounds worth of contracts change hands each minute.

Critics of the DTB system itself contend that, while boasting a plethora of functions, some of the simplest requirements may not be met. For instance, traders have to change page to see if their order has been filled, which can be cumbersome in a fast market.

But the high cost of the DTB should prove a powerful incentive to get the market off the ground. The top German banks that do about 30 per cent of Liffe's business are committed to supporting the new exchange and have been grooming their own traders rather than importing talent from London or Chicago.

DTB now has 65 members of which about 16 are foreign operations. This amounts to 500 traders with 600 terminals, although a relatively small proportion of these are futures operators.

The houses that are undecided will vote with their feet towards the exchange that attracts the most liquidity. "What matters is the liquidity and the speed of execution," says Mr Alex Cooper, director of financial markets at the French bank, Crédit Lyonnais, "people don't care what medium they trade on as long as it has the business".

For this reason, most market players don't expect Liffe and the DTB to survive side by side for long. "There is no need for two identical contracts to exist in the same time zone," one trader commented. Even Mr Jenkins says that, in theory, one centre will prevail in the long term.

In the meantime, the exchanges will slug it out.

In its first day, the DTB traded just over 4,000 contracts in the bund compared with nearly 25,000 on Liffe. But as Mr Cooper comments, "I suspect German thoroughness will win through despite an inauspicious start".

Liffe has a reputation as an innovator and the exchange is still active in developing new products.

If it loses the bund, it will not be the end of the exchange, but it will deal it a heavy blow. At the same time, the success of the DTB will be a key pointer to Frankfurt's importance as a financial centre.

Institutions force resignations of Savage chairman and chief executive

By Andrew Hill in London

INSTITUTIONAL shareholders at Savage Group have forced the chairman and the chief executive of the USM-quoted hardware supplier to quit, ahead of a special meeting which would have called for their resignation.

The chairman Mr Nick Savage, a grandson of the company's founder, and Mr David Brown, chief executive, are expected to announce today that they will step down.

One fund manager said yesterday: "We have told the Savage board in recent weeks that there has got to be trust between shareholders and directors. It's like virginity – once you've lost it, it's difficult to get it back."

The Savage resignations are the latest in a series of boardroom departures prompted by direct or indirect institutional pressure.

Three weeks ago, Mr Brian Cox, former chairman of motor components group Camford Engineering, requisitioned a special shareholder meeting in an attempt to oust Mr Savage, Mr Brown and Mr David Stephens, Savage's finance director, and replace them with a new slate of six directors. Mr Cox claimed to speak for 48 per cent of Savage's equity, and said he had the backing of most of the group's largest institutional investors.

But fund managers appear to have convinced Mr Brown and Mr Savage, who owns 13 per cent of the group, that they have already lost the trust and confidence of their largest shareholders and should resign immediately.

Institutions must now decide whether to back Mr Cox's team, which includes three former Savage employees, or switch their allegiance to the remaining board members, including Mr Stephens. Mr Cox is likely to set a date for the special shareholder meeting today. It must be held within the next four weeks.

The remaining directors are seeking to strengthen the board with additional appointments, including a new chairman from outside the company. They are also thought to have the backing of Savage's most influential non-executive director, Mr Norman Ireland.

Mr Ireland, who is chairman of Bowater, has already announced that he is not seeking re-election to the board and refused to comment further yesterday. Mr Stephens also declined to comment.

The institutions are likely to favour a quick resolution of the boardroom uncertainty at Savage, which has seen profits hit by a downturn in the do-it-yourself market. "This company is heavily borrowed, we know the banking people are a bit fragile and the resignation of directors is obviously not good news: all the institutions agreed we needed a speedy response," said the same fund manager.

Savage's share price, which has slipped from a peak of more than 320p before the October 1987 stock market fall, closed at 39p on Friday.

The shareholders backing the original proposal from Mr Cox were Norwich Union with 9.6 per cent, Aetna Unit Trusts (8.9 per cent), Scottish Mutual (7.2 per cent), Equitable Life (5.5 per cent), Abbey Life (3 per cent) and Scottish Amicable (2.6 per cent). Investors in Industry, which traditionally sides with existing management, owns a further 5.9 per cent.

Economics notebook

Hopes rekindled for 'hard' Ecu

MRS THATCHER'S resignation has revived hopes that Britain's evolutionary "hard Ecu" approach to European economic and monetary union will be given a serious hearing at the European Community's Intergovernmental Conference (IGC) on Emu in Rome next month.

The prime minister's shrill rejection of a single EC currency or central bank over the past two years has strengthened the hand of those EC leaders such as EC Commission president Jacques Delors, President Francois Mitterrand of France and Chancellor Helmut Kohl of Germany who want to implement the three-stage Delors programme to Emu.

Many senior politicians and monetary officials on the continent have serious doubts over the wisdom of a rapid move to Emu but have kept silent. Some have found it impolitic to be seen agreeing with Britain's objections. Others have found it convenient to say nothing so long as the UK acts to brake rapid progress to Emu.

However, even before last week's extraordinary events, Sir Michael Butler, the Hambros Bank director who helped devise the hard Ecu scheme, had received indications that the hard Ecu might yet gain greater acceptability among Britain's EC partners.

Although the hard Ecu was firmly rejected by Mr Karl Otto Pöhl on his recent visit to London, the summit of EC leaders in Rome at the end of October went some way to incorporating Britain's plans into the final communique.

Britain's idea for a European Monetary Fund could possibly be adapted into the "new Community institution" that the Rome summit said should be established when the EC moves into the second stage of the Delors process to Emu.

According to the EC leaders, this institution would oversee the development of the Ecu and strengthen and develop coordinated EC monetary policies in stage two.

Sir Michael's hopes have also been raised by a letter from Mr Tommaso Padoa-Schioppa, deputy director general of the Bank of Italy and one of the key officials preparing the IGC.

Mr Padoa-Schioppa wrote: "I consider the language in which the British position has been stated in the Rome communique as rather positive."

However, he said that Britain's position would only improve if the UK accepted the concepts of a single currency and central bank set out in stage three of the Delors programme. "I am still convinced that the UK bargaining position will remain weak as long as the very idea of a phase three is rejected," he wrote, "whereas the contribution to shaping the whole process and the possibility of making it beneficial for London as a financial and monetary centre could be enormous if only the attitude changed on that point."

Wealth defect

IRRESPECTIVE of whether he becomes prime minister, stays chancellor or has to accept another fate, Mr John Major's campaign to encourage savings among the less well off has some merit.

An Inland Revenue study on the distribution of marketable wealth among UK adults last week has highlighted the case for savings incentives.

The study, published by the Central Statistical Office, showed that overall marketable wealth, defined as those assets for which a value can immediately be realised less liabilities, increased sharply in real terms to £1,317bn from £752bn between 1976 and 1988.

But the share of such wealth held by the poorest 50 per cent of the population declined to 6.3 per cent of the total from 8.1 per cent. Even more telling, 31 per cent of British adults had marketable wealth of less than £5,000 in 1988.

In 1976, the proportion of adults with less than £5,000 at 1988 prices had been 49 per cent. But the improvement at the bottom end of the social scale was modest compared with the rise in fortunes of the top quarter of the population who saw their marketable wealth jump to nearly £1,000bn from £532bn in the period.

Recent reforms to encourage savings, such as the tax exempt special savings accounts (Tessas) announced by Mr Major in his March budget, have yet to start operating.

The Chancellor hopes these reforms will increase the mobility and independence of individuals. However, it is unfortunate that when Tessas become available at the beginning of next year, Britain will be in a recession. Some of those for whom the savings accounts were designed will be unable to take advantage of them because of rising unemployment.

Research gap

SINCE LEAVING the government in 1986, Mr Michael Heseltine has made much of the weakness of Britain's manufacturing base compared with trading rivals abroad.

In this context the annual review of industrial policy in OECD countries, recently published by the Paris-based Organisation for Economic Co-operation and Development, is a sobering read.

First the good news. Between 1985 and the end of last year, manufacturing production in Britain grew roughly in line with the total manufacturing output of the 24 industrialised countries that make up the OECD.

The UK's volume production index (taking 1985 as 100) stood at 119 against the OECD total of 120 by the end of 1989. The US was a bit behind Britain at the end of last year, with its manufacturing production index at 118. Japan was ahead with 124 while the West German index stood at 121. The figures referred to the pre-union period.

The OECD's statistics for the development of gross fixed capital formation in manufacturing were similarly unexceptional. The volume index figure for Britain (again based on 1985 equalling 100) was 134 last year, down on Japan's 141 but higher than the EC average and well above comparable US figures.

Since last year, investment has fallen in Britain while manufacturing output has declined since the summer.

The most disturbing news in the OECD report concerned research and development outlays in the business sector. These should represent the seed corn of Britain's future industrial development.

But the report suggested that R&D spending by business has hardly grown in real terms in Britain since 1985 whereas elsewhere in the EC such expenditure has picked up. Although the statistics are not as clear as they might be, Germany, France and Italy and smaller countries such as Spain, the Netherlands and Ireland all seem to have boosted R&D outlays in the late 1980s.

Peter Norman

Woodchester suit 'against public interest' says think tank

By David Lascelles in London

THE BID by Crédit Lyonnais, the state-owned French bank, to raise its stake in Woodchester Investments, the Irish financial services company, would be against the UK public interest, according to the Adam Smith Institute.

In a submission to the Monopolies and Mergers Commission, which is investigating the deal, the free market think-tank says that if Woodchester passed under the effective control of Crédit Lyonnais, "it would pass under the common control of all of the other operations controlled by the French government."

Adam Smith argues that state-owned companies do not operate in the normal commercial and competitive environment to which private corporations are subjected, and they have access to non-commercial sources of capital.

Crédit Lyonnais is proposing to raise its stake in Woodchester from just under 30 per cent to 45 per cent. However, both companies have substantial financial operations in the UK, and Mr Peter Lilley, the Trade and Industry Secretary, decided to refer the deal to the commission in September, even though the Director General of Fair Trading had already recommended there should be no referral. Mr Lilley is expected to announce his decision by the end of the year.

A statement from both companies at the time of the referral said Crédit Lyonnais's increase in its stake had been approved by shareholders and cleared by the Takeover Panel, the stock exchanges in Dublin and London, the Irish Department of Industry and Commerce, the Central Bank of Ireland and the Bank of England.

COMPANIES AND FINANCE

StanChart suit against Price Waterhouse over US acquisition

Bank claims $800m from auditors

By Terry Byland

STANDARD CHARTERED, the international bank, is claiming $800m in damages in an Arizona court against Price Waterhouse, one of the world's leading accountancy firms.

The case, which could render Price Waterhouse liable to punitive damages taking the potential award to $2.4bn, was filed by Standard in April when it claimed that PW had failed to give an accurate picture of finances at United Bank of Arizona, when advising Standard during its $335m acquisition of the bank in 1987. PW had been United Bank's auditors for several years.

Standard's suit claims that: "Price Waterhouse failed to identify and report material deficiencies in United Bank's loan portfolio and in its system of internal lending controls."

Standard would make no comment on the matter yesterday but PW has been strongly resisting the claim in the US. In addition to the harm to its image should Standard's case succeed, PW may not have insurance coverage to the full extent of the possible punitive damages.

Standard, headed by Mr Rodney Galpin as chairman and chief executive, is believed to have taken a loss of around $100m when it sold United Bank after less than two years of ownership.

Profits for 1986 at the Arizona bank were revised downwards by some 30 per cent, after substantial bad debts emerged shortly after its acquisition by Standard via its US subsidiary, Union Bancorp. However, PW's report is understood to have identified United's loan portfolio as an area of risk.


Rodney Galpin

Kynoch winds down textile operations

G&G Kynoch has taken another step into healthcare equipment and produced figures which represent the winding down of its traditional wool textile manufacturing operation in Scotland.

In the year to August 31 pretax losses increased from £374,000 to £983,000 onsales of £4.02m (£4.9m). The cost of closing the Keith factory, near Aberdeen, was included as a £2.31m extraordinary item.

Mr Kevin D'Silva, chief executive since August when part of the old board retired, said the remaining textile interests were a design, samples and sales operation and a company that made Shetland sweaters.

To expand into healthcare equipment, a 5-for-1 rights issue in September raised about £4.4m.

That was first used to buy MDH, an Andover-based maker of contamination control equipment, for £2.83m from BTR. Yesterday another purchase from BTR was announced: Cape Environmental, a maker of testing equipment, for £800,000. Mr D'Silva also said that most of Kynoch's year-end debt of more than £2.5m had been wiped out.

For the year to August 31, the loss per share was 144.9p (loss of 66.8p) and there is no dividend (2p total last time).

Aberdeen Steak still seeks buy-out as losses increase

By Richard Gourlay

ABERDEEN STEAK Houses, the London restaurant chain, said it was still pursuing a management buy-out in spite of experiencing a rise in losses for the first six months of 1990.

But the stock market was unimpressed by a statement from Mr Ali Salih, the chairman, that he was still talking to his bankers about finance for his proposed MBO, and the shares closed unchanged at 36p on Friday.

In August Mr Salih said the buy-out would be at a price "unlikely to be materially different" from the 67p at which the shares were floated on the USM in 1985. Mr Salih retains 78 per cent of the company.

The interim figures for the first half of 1990 showed pretax losses of £475,000, a significant increase over the £114,000 of the second half of last year. The first half of 1989 produced an actual profit of £280,000 so leaving a loss of £166,000 for the whole of that year.

The loss before exceptional items was £316,000, compared to a restated deficit of £127,000 in the first half of 1989.

During the half year the group incurred exceptional losses of £169,000 principally from disposal of tangible and intangible fixed assets following the conversion of three restaurants.

Turnover increased by 20 per cent, from £6.2m to £7.45m. Loss per share was 3.7p, against earnings of 1.1p, and the interim dividend is passed. The interim of 0.75p in 1989 was the only payment for that year.

The statement blamed the increased losses on the publicity given to spongiform encephalopathy, or "mad cow disease", and weakness in the economy. Increased rents and the uniform business rate had also hit trading profits.

A review of loss-making restaurants was under way and action had been taken to sell several properties.

Arley suspended

Shares of Arley Holdings, maker of photographic and audiovisual equipment, were suspended at 6p on Friday at the company's request.

No explanation for the move was immediately forthcoming. Over the past twelve months, the shares have slumped from 78p.

The group has been reorganised under Mr John Ferguson, chairman and chief executive, and has made acquisitions.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Aberdeen Steak §.....int	nil	-	0.75	-	0.75
Black Arrow ....int	0.5	Jan 8	1	-	4.2
Century Oils ....int	1.75	Jan 25	1.75	-	6
Kynoch (G&G) ....fin	nil	-	1	nil	2
Portsmouth Water ....int	1.35	-	-	-	-
Stirling ....int	0.5	Jan 25	0.5	-	1.5
TR Property Inv ....int	0.6	Jan 11	0.6	-	1.45

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock.

New risk consultancy from Willis Corroon

By Richard Lapper

WILLIS CORROON, the London-based international insurance broker, is to launch a new risk management consultancy company, Willis Wrightson Risk Management.

It will provide independent risk management advice and services to industrial and commercial companies throughout the UK. Previously such services have only been available to clients of Willis Wrightson, the UK retail brokerage arm of Willis Corroon.

The development represents a further diversification for Willis Wrightson which, like other insurance brokers, is interested in developing fee-based consultancy as an adjunct to its broking activities. Brokers take a percentage commission on insurance premiums which they sell, but since the price of insurance fluctuates, earnings from this source tend to be volatile.

The new company will employ specialists in a range of fields including property loss control, security, health and safety, engineering breakdown, environmental pollution and product liability.

An increasing number of European companies have been investing in risk control hardware, such as sprinklers, security systems, and improvements in management systems in a bid to reduce losses and insurance costs, following a trend which is well established in the US.

CU negotiating deal with GIT

Commercial Union, the insurance and financial services company, is negotiating with Globe Investment Trust to purchase Globe Morley, the pension fund portfolio managers.

Mr Peter Foster, CU's financial controller, says the deal should be completed next month. It is expected that CU will pay no more than £5m for Globe Morley, which has around £600m under management. CU manages funds of £15bn. Mr Norman Pilkington, the chief executive of Globe Morley, has welcomed the deal.

Globe Investment was bought by the Coal Board pension fund in July after an acrimonious £1.1bn contested bid battle. The Coal Board has been looking for a buyer for Globe Morley since September.

Apple planning venture with Acorn Computer and VLSI

By Louise Kehoe in San Francisco

APPLE COMPUTER, the US personal computer company, is expected to announce a joint venture with Silicon Valley chipmaker VLSI Technology and Acorn Computer, the UK computer company, tomorrow aimed at developing a microprocessor that could power the next generation of Apple's personal computers.

Apple has scheduled a joint "corporate announcement" with VLSI Technology, fueling speculation that the personal computer company will take an equity stake in VLSI, a leading manufacturer of application specific microcircuits and one of Apple's major chip suppliers.

VLSI's stock price gained 30 per cent last week to close on Friday at $4 7/8 in heavy trading despite the Thanksgiving holiday slowdown.

The extent of Apple's financial commitment to the joint venture is unclear. The companies declined to comment in advance of the official announcement. Apple is, however, believed to be joining forces with VLSI and Acorn to develop a high performance Reduced Instruction Set Computer (RISC) microprocessor, based upon a design previously co-developed by Acorn and VLSI Technology.

RISC chips outperform conventional microprocessors by processing large numbers of simple instructions at very high speed. RISC chips are widely used to power computer workstations from companies such as IBM and Sun Microsystems.

To date, however, RISC technology has not made significant inroads in the high volume personal computer market. Acorn and VLSI Technology jointly developed a RISC chip called ARM (Acorn RISC Machine) in the mid 1980s.

The chip is currently in use in a variety of printers and other computer peripherals. Apple is expected to acquire rights to use the ARM chip and to work with Acorn and VLSI Technology to produce a new version of the microprocessor chip.

Apple has been widely expected to adopt a RISC microprocessor designed by Motorola, its current microprocessor supplier, for use in its next generation of personal computers. The pending agreement with VLSI and Acorn suggests, however, that there may be other candidates for the critical chip slot.

Apple's research and development Advanced Technology Group is reported to have produced at least two prototype computersbased upon ARM chips. For Acorn, Apple's backing of the development of a new version of ARM would be a significant boost. The computer company's own efforts to exploit the ARM chip have so far been disappointing.

VLSI Technology, which suffered a third quarter loss of $18.8m on quarterly revenues of $75.3m, also stands to gain considerable kudos. Although Apple has long been VLSI's largest customer, the chip company's contributions to Apple's Macintosh are not widely recognised.

The potential loser, should Apple decide to co-develop its own RISC microprocessor with VLSI and Acorn is Motorola. Current versions of the Apple Macintosh are all based on Motorola's 68000 family of conventional microprocessors. Motorola is, however, struggling to establish a broad market for its 88000 RISC microprocessor. If Apple rejects the 88000, it will be a serious setback for Motorola.

NEWS DIGEST

Century Oils up to £1.95m

CENTURY OILS Group, the lubricants concern, increased its pre-tax profit from £1.09m to £1.95m in the six months ended September 30.

Mr Charles Mitchell, chairman, said operating profit advanced 64 per cent to £3.48m and continued to reflect the benefits now resulting from the reorganisation and efficiency programmes introduced last year.

Turnover rose 18 per cent to £57.12m (£48.23m), and included contributions from the French subsidiaries acquired last year offset by a reduction in low margin business in the UK and US.

Interest charges rose to £1.81m (£1.29m) following the acquisition and temporary increases in working capital.

Earnings per share worked through at 4.06p (2.09p) and the interim dividend is again 1.75p.

Significant drop at Stirling Gp

A severe reduction in pre-tax profits, from £1.6m to £305,000, was announced by Stirling Group, the Manchester-based clothes designer and manufacturer, for the half year to September 30. Earnings amounted to 0.53p (2.76p). The interim dividend is maintained at 0.5p.

Turnover declined from £20.52m to £18.81m.

TR Property assets and earnings suffer

Net asset value and earnings fell sharply at TR Property Investment Trust in the six months ended September 30 1990.

Compared with March 31 the asset value per share declined by 32 per cent, from 54.5p to 37p, reflecting the failure of County Hall Development Group which proved to be the culmination of a disappointing period.

Earnings were cut from 1.35p in 1989 to 0.58p. However, the directors are holding the interim dividend at 0.6p and expect to maintain the final at 0.85p.

Total income fell from £6.99m to £4.19m. In that was reduced dealing profits of £853,000 (£2.59m) and a £564,000 provision for diminution in value of property dealing stock.

Black Arrow profit and dividend cut

Black Arrow saw interim pretax profits fall 60 per cent, from £1.73m to £682,000, and is halving the dividend to 0.5p.

Mr Arnold Edward, chairman, said the result, for the half year ended September 30, was worse than expected. The furniture division showed a decline in turnover of 5 per centand profits were adversely affected.

Substantially increased bad debt provisions were needed in the dry cleaning franchise company and that sustained heavy losses.

Turnover overall fell 11 per cent to £10.73m (£12.12m). Earnings per share were down to 1.56p (4.41p).

Canon

CANON SALES CO., INC.
TOKYO

SFrs. 300,000,000

3% Convertible Notes 1990-1994

BSI 1873

Lead Manager: Banca della Svizzera Italiana

Co-Managers:
Yamaichi Bank (Switzerland)
Nomura Bank (Switzerland) Ltd.
Fuji Bank (Schweiz) AG
Daiwa (Switzerland) Ltd.
Mitsui Taiyo Kobe Bank (Schweiz) AG
The Nikko (Switzerland) Finance Co., Ltd.
Bank of Tokyo (Schweiz) AG
Nippon Kangyo Kakumaru (Suisse) S.A.
Sanwa Bank (Schweiz) AG
Sumitomo International Finance AG
Dai-Ichi Kangyo Bank (Schweiz) AG
KOKUSAI (Switzerland) Limited
New Japan Securities (Schweiz) AG
Taiheiyo (Switzerland) Ltd.
The Industrial Bank of Japan (Switzerland) Limited
Tokai Finanz (Schweiz) AG
Towa (Schweiz) AG
Universal Securities (Switzerland) Co., Ltd.
Yasuda Trust Finance (Switzerland) Ltd.
Banca del Gottardo
Bank J. Vontobel & Co., AG
Bank Julius Bär & Co. Ltd.
BDL Banco di Lugano
HandelsBank NatWest
Hentsch & Cie.
J. Henry Schroder Bank AG
Lloyds Bank PLC
Lombard, Odier et Cie
Pictet & Cie
Schweizerische Depositen- und Kreditbank
Sogenal- Société Générale Alsacienne de Banque
Swiss Volksbank
Unigestion SA
Zürcher Kantonalbank

NEW ISSUE - This announcement appears as a matter of record only - August, 1990

Canon COPYER

CANON COPYER SALES Co., Ltd.
TOKYO, JAPAN

SFrs. 60,000,000

5% Convertible Notes 1990-1994

BSI 1873

Lead Manager: Banca della Svizzera Italiana

Co-Managers:
Yamaichi Bank (Switzerland)
Daiwa (Switzerland) Ltd.
Fuji Bank (Schweiz) AG
Nomura Bank (Switzerland) Ltd.
Sumitomo International Finance AG
The Nikko (Switzerland) Finance Co., Ltd.
Kankaku (Suisse) S.A.
Attel & Cie SA
Banca del Gottardo
Bank Julius Bär & Co. Ltd.
Bank Leu Ltd
Banque Paribas (Suisse) S.A.
HandelsBank NatWest
Lombard, Odier & Cie
Schweizerische Depositen- und Kreditbank
Swiss Volksbank
Unigestion SA
Zuercher Kantonalbank

NEW ISSUE - This announcement appears as a matter of record only - October, 1990

Footwork

FOOTWORK INTERNATIONAL CORP.
OSAKA, JAPAN

SFrs. 100,000,000

5 7/8% Notes with warrants 1990-1995

Guaranteed by the Long-Term Credit Bank of Japan, Limited, Tokyo, Japan

BSI 1873

Lead Manager: Banca della Svizzera Italiana

Co-Managers:
Daiwa (Switzerland) Ltd.
Mitsui Taiyo Kobe Bank (Schweiz) AG
The Long-Term Credit Bank of Japan (Schweiz) AG
Nomura Bank (Switzerland) Ltd.
Toyo Trust Finanz (Schweiz) AG
Mitsubishi Bank (Switzerland) Ltd.
Sanwa Bank (Schweiz) AG
Daiwa Finanz AG
Mitsubishi Trust Finance (Switzerland) Ltd.
Attel & Cie SA
Banca del Gottardo
Banca dello Stato del Cantone Ticino
Bank Julius Bär & Co. Ltd.
Bank Leu Ltd
Banque Paribas (Suisse) S.A.
Basler Kantonalbank
BDL Banco di Lugano
HandelsBank NatWest
Lombard, Odier & Cie
Overland Banca
J. Henry Schroder Bank AG
Swiss Volksbank
Unigestion SA
Zuercher Kantonalbank

NEW ISSUE - This announcement appears as a matter of record only - October, 1990

SOKKIA

SOKKISHA CO., LTD.
TOKYO, JAPAN

SFrs. 60,000,000

5 5/8% Notes with warrants 1990-1995

Guaranteed by The Mitsui Taiyo Kobe Bank, Limited, Tokyo, Japan

BSI 1873

Lead Manager: Banca della Svizzera Italiana

Co-Managers:
Nomura Bank (Switzerland) Ltd.
Mitsui Taiyo Kobe Bank (Schweiz) AG
Fuji Bank (Schweiz) AG
Yokohama Finanz (Schweiz) AG
The Long-Term Credit Bank of Japan (Schweiz) AG
Mitsui Trust Finance (Switzerland) Ltd.
Sanwa Bank (Schweiz) AG
Attel & Cie SA
Banca del Gottardo
Bank Leu Ltd
Banque Paribas (Suisse) S.A.
BDL Banco di Lugano
HandelsBank NatWest
Schweizerische Depositen- und Kreditbank
Swiss Volksbank
Unigestion SA
Zürcher Kantonalbank

NEW ISSUE - This announcement appears as a matter of record only - November, 1990

Trouble brews for Portuguese sell-offs

Patrick Blum investigates the first serious setback to the privatisation programme

The Portuguese government faces some important questions over the future of its ambitious privatisation programme following its failure this month to find enough buyers for Centralcer, the big state brewer.

Centralcer is the first serious setback to what, until now, has been a successful programme, and it comes as the government is accelerating the pace of the campaign with several large companies set to be sold or partially sold this year and early in 1991. The timing could not have been worse.

Mr Jose Elias da Costa, Secretary of State for Finance, who is responsible for the privatisation programme, admits that investor demand for Centralcer was much lower than expected. He blames a number of factors.

- The Portuguese equity market has declined throughout the year and is now a third below its January peaks. The Gulf crisis, combined with the slowdown in the world economy, has compounded anxieties over local inflation and high interest rates.
- The government has limited foreign purchases of privatised shares. Earlier privatisation issues witnessed strong foreign demand despite limits of 5 per cent to 10 per cent on foreign purchases. In some cases, foreign investors circumvented the limits by making alliances with local partners. Nevertheless, there is growing frustration at the imposition of limits seen as arbitrary, bureaucratic and counter-productive.
- The emphasis on selling companies primarily through a flotation on the stock exchange is seen by many analysts as too rigid. They say the government should resort more to direct negotiations with prospective buyers, especially for the larger companies.
- Prices for shares are set high to enable the government to raise the maximum revenue from privatisations.

Mr Elias da Costa admits Portuguese investing power may simply be too weak. "After the 1974 revolution the big economic groups were partly destroyed and the process of forming new groups began only in the 1980s. Our economic groups are still very young and they need time to build strength."

Centralcer, whose underwriters were left with 35 per cent of the issue, is financially healthy. It has about 50 per cent of the Portuguese beer market and a growing business in soft drinks. It produces under licence international brands such as Carlsberg, and its Agua de Luso has a 41 per cent share of the local mineral water market. It also produces wine.

The company's sales, which were Es19.8bn ($147m) in 1988, are forecast to rise to Es31bn for 1990. Profits have risen by almost 200 per cent since 1988. In theory these factors should have made Centralcer attractive to a broad range of investors.

However, the issue was unusually controversial, with the company's former owners fighting in the courts to halt the sale. They say they should be given back at least 43 per cent of the company or, alternatively, the government should give them much better compensation than has been offered. The row continues and it is likely to have had a bearing on the lack of success for the flotation.

Since April 1989, the government has raised about Es150bn ($1.1bn) from its privatisation programme, using the revenue to pay back government debt and shore up ailing state-owned companies.

The list of privatised companies includes Companhia de Seguros Tranquilidade, the insurance group, Unicer, the other big brewer, the 80 per cent sale of Banco Totta & Acores, the 49 per cent sale of Alianca Seguradora, another insurer, and the sale of a shipping line, and several smaller companies.

All issues were heavily oversubscribed, but all were relatively small. The big worry for the government is that the flotations planned for the next few months are relatively heavyweight.

Next month the final 33 per cent of Banco Portugues do Atlantico, the largest state-owned commercial bank, is due to be floated. The government also hopes to carry out the first phase of the privatisation of Petrogal, the oil group, through a capital increase.

Next year, six banks, including Banco Espirito Santo e Comercial de Lisboa, the second largest state-owned commercial bank, and three insurance companies, including the country's two largest, Mundial Confianca and Imperio, are to be privatised.

Other significant issues include Cimentos de Portugal and Secil, two cement groups, Siderugia Nacional, the steel group, and CTT/TLP, the telephone company.

Portuguese capital alone cannot hope to absorb such a volume of newly-floated equity. The government may be forced to drop its reluctance to allow foreign groups a greater role in the process. It may also have to make more concessions to former owners.

Either way, if the experience of Centralcer is not to be repeated, the Portuguese authorities will have to look very hard at how the programme is to be packaged from here on.

Third-quarter loss for Central Capital

By Robert Gibbens in Montreal

CENTRAL Capital, the core holding company for one of Canada's largest financial services groups made a C$106m (US$91.5m) writedown in the third quarter leaving a loss of C$69.9m or C$1.16 a share, against profits of C$22.1m or 28 cents a share a year earlier.

Central, controlled by Montreal financier Leonard Ellen and Associates, made the special provision to cover loan losses, portfolios and problems with its British mortgage affiliates and money management operations.

Nine months' loss was C$53.9m or C$1.03 a share against profits of C$75.1m or 94 cents a year earlier.

Central Capital's five years of growth by takeover has ended with the recession and property market problems. Cutbacks and special provisions have already been made at several subsidiaries, including Central Guaranty Trust, the biggest.

Total group debt has been reduced by C$525m to C$1.7bn this year. Merchant banking has been shifted to the trust company.

Mr Stanley Beck, deputy chairman, said the holding company should return to profitability in the fourth quarter. "All lending and securities portfolios have been cleaned up."

NZ white goods maker declines by 45% pre-tax

By Dai Hayward in Wellington

FISHER AND PAYKEL, the leading New Zealand home appliance manufacturer, has suffered a 45 per cent fall in pre-tax profits for the six months ended September 30, due to the depressed state of the economy and reduced consumer spending.

Profits fell to NZ$7.9m (US$4.84m) from NZ$14.5m despite export success and a rise in turnover.

Fisher & Paykel has 10 per cent of the Australian market for refrigerators and 20 per cent for chest freezers. It has boosted export sales to Australia by 37 per cent.

The company is about to open a NZ$35m plant in Queensland, which will start producing refrigerator cabinets by the end of the year, as part of a plan to extend production and improve efficiency.

Sale of Aerolineas completed

By John Barham in Buenos Aires

PRESIDENT Carlos Menem has finally signed the decree privatising Aerolineas Argentinas, the country's flag carrier, his second big privatisation in two weeks.

The sale of 85 per cent of the airline to a consortium led by Iberia, the Spanish airline, was delayed 24 hours when the buyers were unable to present sufficient bank guarantees to complete the sale.

Under an accord negotiated in the small hours of Wednesday with the government, the Argentine investors' share of the consortium has fallen to 51 per cent from 65 per cent.

Iberia has increased its stake in the consortium to 30 per cent from 20 per cent and introduced new, but unnamed, foreign investors to take a 19 per cent stake, giving a 49 per cent share in the consortium. Aerolineas staff and the government will hold 10 per cent and 5 per cent of the company's equity respectively.

The consortium is to pay $130m cash and a further $130m over five years, plus $2.01bn in Argentine foreign debt certificates which it must deliver within 90 days.

The government also requires the buyers to invest $683m in the airline over five years.

Iberia has also promised to find within 30 days international banks to guarantee the investment programme and the $130m deferred payments.

Brazilian group seeks protection

THE Matarazzo group, which played an important role in the industrialisation of Brazil, has sought protection from creditors for eight of its 29 companies, Reuter reports.

The group blamed high interest rates and slack sales. The companies had sales last year of more than $260m and employed over 8,000 people.

Bührmann-Tetterode posts rise of 21%

By Ronald van de Krol in Amsterdam

BUHRMANN-Tetterode, the Dutch packaging, paper and office supplies wholesaler, posted a 21 per cent rise in net profit in the first nine months of 1990, extending the 20 per cent increase seen in the first half.

Net profit rose to Fl 160.1m ($95.9m) over the first three quarters from Fl 132.3m in the same period of 1989. Turnover rose 6.5 per cent to Fl 4.03bn, down from 8.1 per cent in the first half.

If adjusted for acquisitions and disposals, turnover growth in the nine-month period was 2.7 per cent.

In the graphic paper and office supplies sector, sales and profits rose substantially. Packaging also saw higher turnover and profits, the company said.

Although demand for graphic and business systems remained strong, the production capacity of some of the company's suppliers had not kept pace with demand.

This meant that delivery times had lengthened and that Bührmann-Tetterode's sales in this sector had been flat.

On the other hand, order books for deliveries in the fourth quarter and in 1991 are significantly higher than a year ago.

Bührmann-Tetterode, which described these reduced deliveries as a risk for the current year, said profit per share would show limited growth in 1990. Three months earlier, it had said merely that profit per share would be higher this year.

Jamaica sells telecoms stake to C&W for $42m

By Canute James in Kingston

THE Jamaican government has sold its 20 per cent interest in Telecommunications of Jamaica to Cable & Wireless of the UK for $42m. The sale takes Cable & Wireless' stake in the company to 79 per cent.

The government said the sale had been rewarded with "an attractive price in foreign exchange".

It is the second time this year that C&W has bought into ToJ. In March the company acquired 20 per cent of the government's holdings in the telecommunications company. The remaining shares are held by individual and institutional investors.

ToJ, which is the holding company for the Jamaica Telephone Company and Jamaica International Telecommunications, reported pre-tax profits of $45.9m for the year to March, up $6.5m on the previous year.

NRI TOKYO BOND INDEX

December 1983 = 100	15/11/90	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	146.46	7.72	146.23	142.11	145.20
Government Bonds	143.38	7.63	143.03	138.20	143.16
Municipal Bonds	148.97	7.63	148.94	143.96	147.35
Govt.-guaranteed Bonds	151.62	7.72	151.54	147.42	149.31
Bank Debentures	144.63	7.77	144.49	141.20	142.39
Corporate Bonds	149.36	7.94	149.15	146.28	147.16
Yen-denom. Foreign Bonds	151.44	8.70	151.18	152.00	152.86
Government 10-year†	7.24	–	7.31	7.71	6.57

† Estimated par yield

Source: Nomura Research Institute

LAST WEEK'S CROSS BORDER DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Guinness (UK)	Cruzcampo (Spain)	Brewing	£533m	Biggest o'seas buy in Spain
Consortium (Spain/Argentina)	Aerolineas Argentinas (Argentina)	Airline (nominal)	£1.15bn	Debt reduction privatisation
Mitsubishi Corp (Japan)	UCAR Carbon (US)	Graphite electrodes	£118m	Japanese buying half
Jefferson Smurfit (Ir)/ Brent Walker (UK)	Irish jv	Leisure	£22m	Smurfit backs BW rescue
British Steel	Tuscaloosa (US)	Steelmaking	N/a	Small but significant
Lufthansa (Germany)	Olympic Catering (Greece)	Airline catering	N/a	First completed privatisation
CSK (Japan)	Micrognosis (US)	Computer services	N/a	Control Data restructures further
Ansaldo (Italy)/ Siemens (Germany)	Soviet jv	Gas turbines & power plant	N/a	Joint venture of jvs
SAS Leisure division (Scandinavia)	Aviatour (Italy)	Tourism	N/a	Part of global strategy

It was a week which proved size isn't everything, writes Brian Bollen. Deals tended to be small but significant.

The biggest in absolute terms was the £533m agreed cash bid from UK-based drinks group Guinness for Spain's largest brewer Cruzcampo, in line with its strategy to expand internationally, market by market. The biggest foreign investment in Spain yet will give Guinness a significant presence in one of Europe's fastest-growing and most profitable beer markets, move it up the league table of world brewers and further reduce its reliance on stout. The bid had been mooted ever since Guinness sold its 51 per cent stake in Spanish wine exporter Bodegas last month.

British Steel supplied further evidence of its international expansion ambitions with its agreement to buy Tuscaloosa Steel of the US. This is British Steel's third buy outside the UK this year, the others being in Spain and Germany.

German flag carrier Lufthansa has also been busy buying abroad in 1990. Its purchase of a majority stake in Olympic Catering from the Greek state airline was its second recent foreign acquisition. In August it bought Hong Kong's Dairy Farm Catering. Lufthansa also features in a consortium which is building a majority stake in HK-based international courier DHL and in several other international joint ventures.

As the market awaited a multi-billion dollar offer from electronics group Matsushita for entertainments group MCA, the lower key revival of Japanese buying in the US continued. CSK, Japan's biggest independent computer services company, is buying Micrognosis, a trading room systems supplier, as the first step in its planned international expansion. Control Data is selling Micrognosis as part of a drastic restructuring and refocusing exercise.

Union Carbide's announcement of the sale of half its UCAR Carbon business to Mitsubishi Corporation follows its surprise unveiling of a modest reorganisation programme.

Source: FT Mergers & Acquisitions International

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INTERNATIONAL CAPITAL MARKETS

UK GILTS

Traders convinced of base rate cut

THE gilt-edged securities market rode high last week amid hopes of a more settled political outlook for the UK and more signs of the economy moving into recession. It was the best week for UK government bonds since the announcement of Britain's entry into the European exchange rate mechanism on October 5.

The market is becoming increasingly convinced that the government will cut the 14 per cent base rate soon, perhaps in the next fortnight, to counter the economic slide. That would have the immediate effect of cutting gilt yields, particularly at the short end of the market, boosting prices.

Traders took an optimistic view of the outcome to the Conservative leadership struggle, arguing that whoever takes over from Mrs Thatcher is likely to introduce greater stability into UK politics. In particular, a more positive outlook on European economic and monetary integration is expected, a factor that should help to underpin sterling.

At the end of the week, exchange rate movements supported this view. The pound continued its 10-day rise to close on Friday at about DM2.925, around its level immediately before Sir Geoffrey Howe's resignation speech on November 13.

Anything that helps sterling is good for gilts, on the grounds that foreign investors are more likely to buy UK government bonds if exchange risks in transferring foreign currencies into pounds are perceived as being low.

During the week, prices for gilts of both long and short durations rose markedly, with yields decreasing. Prices rose most noticeably for long-dated gilts, in anticipation of a series of cuts in interest rates in 1991. Many believe this will follow the easing in borrowing conditions expected within the next fortnight or so.

Reflecting the price movements, the benchmark Treasury 9 per cent bond maturing in 2008 closed on Friday night at 87¼, an increase of more than two points on the week. The yield decreased from 10.94 per cent to 10.60 per cent.

Many market participants appear to have been caught up in the excitement of Mrs Thatcher's resignation, according to one gilt salesman. "Everyone wanted to get involved [in the market], and as it turned out most people bought rather than sold," he said.

Signs of the economy moving into a recession continued to multiply during the week, adding to indications that the new prime minister is likely to face a barrage of calls to reduce the cost of borrowing by hard-pressed businesses.

The most convincing evidence came from Bank of England figures for growth in the money supply. These showed that M0, the only monetary indicator targeted by the government, rose in October at an annual rate of 4 per cent. This is the third successive month that the indicator has been within the government's 1-5 per cent range and is a sign that inflationary pressures in the economy are subsiding.

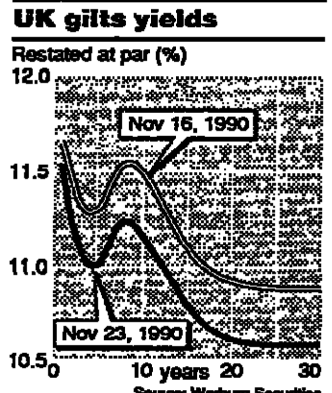
Britain's current-account deficit for October worked out at £1.1bn, slightly greater than expected but consistent with the view that the economy is in a sharp slowdown.

Imports in October were £9.8bn, a £200m increase on September in nominal terms. But stripping out figures for oil and high-priced, erratic items, imports showed a 1.2 per cent fall between the two months, underlining the fact that high interest rates and the recession are squeezing spending, both at the level of retail sales and in industrial expenditure.

Peter Marsh

UK gilts yields

Restated at par (%)



DANISH BONDS

Election call brings little reaction

THERE was barely a ripple in the Danish bond market following Prime Minister Poul Schlüter's decision on Thursday to call a snap election midway through the "normal" four-year parliamentary term.

If the market took the political cue easily, it was partly because the election was expected and it was discounted. Only once since 1972 has a parliament actually sat the full term.

But even in the perspective of a couple of months of election speculation there has not been much movement in bond prices.

The market is, in other words, remarkably stable, with prices through most of this year fluctuating from around 120 to 200 basis points over German bond prices and average yields moving from around 10.6 to 11.1 per cent, ending last week at about 10.95.

The stability of the market, which with a first-half turnover this year of DKr960bn ($168bn) is one of the largest in Europe, makes it attractive for institutional investors, with considerable US and some Japanese interest in addition to European.

But the private speculators, looking for higher yields and more excitement, seem to have moved on from the Danish market, says Mr Lars Herman, head bond dealer at Unibors, the Unibank group's broking company. The basic reason for the market's stability is that the country has inflation under control.

The consumer price index increased by 2.7 per cent from October last year to this year, which was rather lower than analysts had expected and is the lowest inflation figure in the EC.

Denmark also has the current balance of payments under control. This year, for the first time since 1963, the current account is expected to be in surplus. For years, the rising current account deficit and soaring external debt has had Danish politicians and economists predicting economic collapse.

In 1986 the deficit was over 5 per cent of GDP and the net foreign debt climbed above 40 per cent. The net foreign debt at the end of 1989 was about DKr295bn, around 38 per cent of GDP and, at today's exchange rate, just over $10,000 per capita.

There is a downside to the economic picture, of course. The GDP growth has remained under 1 per cent a year since 1986. Unemployment is currently at a seasonally adjusted average of 10.8 per cent. Property prices have collapsed.

With the krone locked irrevocably into the ERM, there is so little room for economic policy manoeuvre that whoever forms the government after the election will not make a world of difference to the bond market, said Mr Herman.

But, says Mr Kim Brangstrup of Brancor Securities, if Mr Schlüter is returned to office (which is the best guess), there should be some rise in prices, narrowing the gap between Danish and German bonds from around 180-190 basis points to 110-120.

"Experience suggests that when the difference reaches 190 basis points, it is a good idea to sell German and buy Danish bonds," he says.

Hilary Barnes

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	752.0	0.0	150.0	12,555.5
Prev	620.3	0.0	60.0	16,899.0
Other	2,604.0	395.7	200.0	4,371.9
Prev	1,805.7	0.0	113.2	8,235.0

Secondary Market

	Straights	Conv	FRN	Other
US$	17,844.6	723.4	4,612.8	6,667.5
Prev	16,048.7	622.3	5,557.3	7,591.8
Other	24,195.8	1,924.3	7,644.7	29,720.4
Prev	20,623.5	1,015.9	4,672.8	41,356.7

	Cedel	Euroclear	Total
US$	14,309.5	28,996.3	45,305.8
Prev	15,690.5	31,708.9	47,399.4
Other	25,785.9	45,470.9	71,256.8
Prev	30,877.0	46,945.9	77,822.9

Week to November 22, 1990

Source: AIBD

US MONEY AND CREDIT

Analysts expect easing by Fed

THE US credit markets were full of seasonal good cheer last week, with thoughts concentrated more on turkey dinners with all the trimmings and the number of shopping days left before Christmas than on the Gulf, government policy and bond yields.

The Federal Reserve's decision to signal an easing of monetary policy the previous week by setting a new target of 7½ per cent for the Fed funds rate had put the market in a good mood. Sentiment had been positive prior to the easing, on the belief that the worst news on the inflation front was out of the way, and the Fed's move lifted spirits further.

Thursday's Thanksgiving holiday gave everyone an excuse to leave early on Wednesday and stay in bed on Friday, so trading was quiet throughout the week, with bonds posting modest gains.

This week, however, it is back to the serious business of recession-watching, with a number of important economic indicators due for release. Most of the data is expected to offer fresh evidence of a weakening economic situation, and bond analysts believe the figures might provide room for a further easing by the Fed.

On Wednesday durable goods orders for October are expected to show a decline in orders after exceptional items such as commercial aircraft orders are stripped out. Then on Thursday the personal income and consumption figures for October are released. They should show how fast incomes are rising and consumption is falling.

Analysts are predicting the data will reveal a modest rise in incomes, with higher subsidy payments to farmers and gains in royalty income from firmer petrol prices countering the effect of lay-offs in the vehicle industry and a drop in the average working week.

The consumption figures will be more important, revealing as they do the state of consumer confidence. The fact of economic recession has been big news throughout the country in recent months, and analysts believe consumers have been cutting spending in response to the talk of recession and in anticipation of harder times to come.

If the week's economic statistics confirm the darkening economic picture, how will the Fed react? The clever money in the market is on a further easing of policy before the year is out. But there is no consensus on how the Fed might signal a policy change. The big question is: will it be via another cut in the Fed funds rate, or a cut in the discount rate?

A cut in the Fed funds rate would have the desired effect of sending the right message to the money markets, but it would also further narrow the already tight spread between the Fed funds rate and the discount rate – the interest rate at which the Fed lends money to member banks.

The present size of that spread (Fed funds are at 7½ per cent, the discount rate at 7 per cent) can make life difficult for the Fed because its favoured method of changing policy of late has been to intervene in the banking system via repurchase agreements.

This has the effect of moving Fed funds and thus changing the interest rate at which banks can borrow money overnight from each other. A narrow spread between the Fed funds rate and the discount rate only limits the effectiveness of such intervention and creates technical problems.

Therefore, a number of analysts believe that the next move from the Fed will be a reduction in the discount rate, probably by 500 basis points to 6½ per cent. This will serve two purposes: it will widen the spread between the two rates, but it will still send the necessary message to the money markets that the authorities want lower interest rates.

Crucially, any cut in the discount rate could persuade US banks to lower their prime rates – the rate at which they lend short-term funds to their most credit-worthy customers. This would help to improve business and consumer confidence, and, it is hoped, start the slow process of dragging the economy out of its slump.

This might sound like one of those "golden scenarios" that political and economic commentators so love, but it is a fair reflection of what the bond and the stock markets expect. By the end of the last week both markets appeared to have fully discounted further easing by the Fed and lower interest rates in the short term.

Patrick Harverson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds	7.50	7.56	7.88	9.92	7.78
Three-month Treasury bills	7.23	7.30	7.37	9.11	7.26
Six-month Treasury bills	7.31	7.37	7.45	9.37	7.18
Three-month prime CDs	7.95	7.96	8.02	10.35	7.65
30-day Commercial Paper	7.70	7.82	7.95	9.95	7.80
90-day Commercial Paper	7.83	7.82	7.90	10.05	7.70

US BOND PRICES AND YIELDS (%)

	Last Fri	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	103¼	+⅜	8.14	8.17	8.47
20-year Treasury	107[illegible]	+¼	8.46	8.48	8.80
30-year Treasury	103[illegible]	+½	8.44	8.45	8.77

Money supply: In the week ended November 19, M1 fell by $2.7bn to $819.9bn.

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	100[illegible]		8.65
ABN 9 1/8 94	200	100[illegible]	+[illegible]	8.89
AETNA LIFE & CAS 7 3/4 16	200	97[illegible]	+[illegible]	8.00
ALBERTA PROVINCE 8 5/8 96	750	98[illegible]	+[illegible]	8.87
ALBERTA PROVINCE 9 3/8 95	600	102[illegible]	+[illegible]	8.69
AMERICAN EXPRESS 0 00	450	39	-[illegible]	10.10
AMERICAN GENERAL 9 3/4 95	100	95[illegible]	-[illegible]	11.05
ANHEUSER-BUSCH 9 1/8 92	100	100[illegible]	+[illegible]	8.62
ASIAN DEV BANK 0 04	1000	28[illegible]	+[illegible]	9.44
AUSTRALIA 11 95	200	107[illegible]	+[illegible]	8.81
AUSTRALIAN WHEAT 9 1/2 93	200	102[illegible]	+[illegible]	8.63
AUSTRIA 7 3/4 97	200	95	+[illegible]	8.81
AUSTRIA 8 1/2 00	400	96[illegible]	+[illegible]	9.07
AUSTRIA 9 5/8 93	140	102[illegible]	+[illegible]	8.30
BANK OF TOKYO 8 3/8 96	100	96[illegible]	+[illegible]	9.15
BARCLAYS JERSEY 10 5/8 95	250	106[illegible]	+[illegible]	9.00
BELGIUM 8 97	300	95[illegible]	+[illegible]	8.88
BELGIUM 9 1/8 92	400	101[illegible]	+[illegible]	8.25
BELGIUM 9.2 10	500	100[illegible]	+[illegible]	9.13
BELGIUM 9 5/8 98	250	103	+[illegible]	9.05
BELLSOUTH CAP FUND 9 1/4 93	120	102[illegible]	+[illegible]	8.40
BETAWEST PROP 7 3/4 93	150	96[illegible]	+[illegible]	9.33
BFCE 7 1/4 95	100	97[illegible]	+[illegible]	8.31
BFCE 7 3/4 97	150	95	+[illegible]	8.81
BNP 8 3/4 93	125	100[illegible]	+[illegible]	8.65
BNP 8 5/8 94	300	100[illegible]	+[illegible]	8.52
BOOTS 9 97	175	97[illegible]	+[illegible]	9.46
BP AMERICA 9 3/4 99	250	101[illegible]	+[illegible]	9.40
BP CAPITAL 9 5/8 93	150	101[illegible]	+[illegible]	8.60
BRIT COL HYDRO 11 3/4 93	200	107[illegible]	+[illegible]	8.73
BRITISH GAS 8 5/8 99	350	95[illegible]	+[illegible]	9.20
BRITISH TELECOM FIN 8 3/4 99	200	97[illegible]	+[illegible]	9.23
BRITISH TELECOM FIN 9 3/8 98	250	101[illegible]	+[illegible]	9.06
CAISSE NAT ENERGIE 11 3/4 95	125	109[illegible]	+[illegible]	8.89
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant px yld = exercise yield at current warrant price.

Closing prices on November 23

SYNDICATED LOANS

Tougher times shift the balance of power

TOUGHER times in international banking are forcing changes on the syndicated loan market. As the balance of power shifts firmly towards lenders and from borrowers, banks and their corporate customers are changing their behaviour.

"The business isn't dying," said one banker last week, reflecting on the slowdown in business, "it's just that banks are no longer prepared to have their balance sheets raped by their customers".

Interest margins and fees have thus risen, and banks have become much choosier about to whom they will lend. Loans often prove easy to underwrite – with underwriters assuming they'll have a special place in the heart of the borrower – but prove difficult to syndicate more widely.

According to some bankers, standards of banking practice have also declined as banks seek excuses to run for the exit.

Meanwhile, many companies, having benefited from years of cheap and easy credit, are now worrying that the strength of their ties with banks are critically weak. They are looking to replace uncommitted facilities with committed ones. They are also seeking to consolidate their banking groups, reducing the number of lenders to a smaller, more manageable and more carefully chosen group of banks.

Even in a market awash with sterling risk, Northern Telecom has in place a sub-underwriting group of more than 20 banks for its £1.5bn loan to fund its acquisition of STC.

Syndication of £2.5bn in loans for the two UK power generators, National Power and PowerGen, is more or less complete, but not so successful that the increased pricing, which caused a row between the two companies, looked too high.

The £700m financing for the UK arm of the French state oil company Elf, which had to be repriced after a poor reception in syndication, was finally signed last week. The deal was finally oversubscribed, but it faced hitches to the end. Shortly before signing, Rabobank, the Dutch bank, said it could not agree to certain aspects of the loan documentation and dropped out. Other banks made up the difference.

Barclays has launched syndication of a credit for Heron International, the private group whose chairman and chief executive, Mr Gerald Ronson, is behind bars because of his role in the Guinness affair. The $100m, five-year revolving credit has been underwritten by Barclays, Bank of America, Crédit Lyonnais, Midland, National Westminster, Royal Bank of Scotland and Standard Chartered.

Terms are not available, but it replaces – at richer terms to the banks – a note issuance facility the company arranged in 1985.

Barclays is also said to be arranging a £55m, two-year loan for Empire Stores, the mail order group. That comprises a £40m term loan, a £10m revolving credit and a £5m working capital facility, and replaces a uncommitted tender panel facility it put in place in February last year.

Laura Ashley, the UK furnishings to fabrics group, signed a £60m financing last week that closes an unhappy period. The financing will replace an expensive £115m financing signed in the summer, made necessary following possible breaches of its loan covenants which triggered a dispute among banks which nearly sank the company. The company has since undergone a wide restructuring and taken a Japanese equity partner.

The three-year financing carries a margin of ¾ percentage point, and a commitment fee of 20 basis points. The five-strong underwriting group reflects an interesting mix of banks: Samuel Montagu, Citibank and Bank of Tokyo combined with Den Danske Bank and Bank Mees & Hope. The two latter banks, formerly uncommitted lenders to the company, were locked in the tussle between banks earlier in the year. Their position reflects, in part, a reward for their critical role in supporting the previous restructuring.

While the final list of participants is not yet available, certain other banks regarded as less helpful earlier in the year may not feature.

Stephen Fidler

INTERNATIONAL BONDS

Big issues are eschewed for more subtle instruments

IN AN increasingly difficult international bond market, borrowers are looking to more subtle instruments than the big, prestige Eurobond issues.

The growing acceptance of privately-placed structured securities is one aspect of the shift in emphasis towards low-key, tailored debt issues. The growth of the international medium-term note (MTN) market is further evidence of the change.

An MTN programme provides a structure under which investors can be offered securities ranging in maturity from one to 30 years. The paper can often be of fixed rate, floating rate or deep discount form and in any number of currencies under the umbrella of the programme. Liquidity is provided by either one or a number of "committed" dealers.

Hence issuers can match bond structures to the specific demands of investors. Ongoing issuance under the programme can provide a stream of low-key funding as and when demand is reported by the committed dealers.

Once the programme is in place, borrowers can issue small tranches of bonds very quickly, taking advantage of short-lived arbitrage opportunities.

Importantly, securities issued under a listed MTN programme are often open to institutional investors prohibited, by either internal covenants or external regulation, from investing in privately-placed structured securities.

Proponents of the MTN have long been expounding its virtues and have predicted development of an international market to match that of the US. Borrowers, however, have given the market more qualified support.

Figures from the Association of International Bond Dealers show the total outstanding volume of international medium-term notes has grown by 85 per cent so far this year – during a period of intense depression in the mainstream international bond markets.

But the total volume of outstanding bonds still stands at only $13bn, says the AIBD, against an estimated $860bn of outstanding paper in the international bond market. But the rate of growth is now prolific. Some market participants disagree with the AIBD figure and estimate that the total of outstanding MTN paper will reach $20bn by the year end. This is exponential growth for a market worth just $500m in 1986.

Whatever the figures, the AIBD has recognised this growth by bringing the MTN instrument under its auspices for the first time.

More and more securities houses are also beginning to take notice. When S.G. Warburg pulled out of Eurocommercial paper last month, the team led by Mr Ken Baugh was redeployed to work on MTN business. Other houses are acting as committed dealers for the first time.

In the current environment, the business is probably more profitable to issuing houses than commercial paper or mainstream Eurobond activity.

For example, an issuing house will take fees of 25 basis points on two-year bond issuance for a double-A rated borrower under an MTN programme. For five-year paper, fees may rise to 50 basis points or higher. And since bond issuance of particular maturity, coupon and currency is investor-driven, underwriting risk is small.

Compare this with the mainstream Eurobond market, where standard fees of 1⅞ per cent are often pared to the bone because tightly-priced issues perform badly.

New types of borrowers have also been embracing the instrument this year. Last month Halifax Building Society became the first UK building society to set up an international MTN programme, with a DM500m facility arranged by Deutsche Bank Capital Markets. The programme allows Halifax to issue, for example, two-year maturity paper to D-Mark investors traditionally shy of short-dated securities.

Similarly, the first international MTN programme from a supranational borrower is expected before the year end.

Last week, Deutsche Bank announced details of its own £500m MTN programme, which incorporates fixed-rate, floating-rate or zero-coupon bonds. Although the programme is initially only in sterling, the legal structure allows for multi-currency issuance at a later date.

The bank is keen to point out that the MTN programme is an adjunct, rather than an alternative, to the large liquid Eurobond issues. But it does recognise the demand among investors for paper targeted at specific cash flows.

The problem, as in the commercial paper markets, has always been one of liquidity. However, the problem is more pressing for potential investors in MTNs than commercial paper because maturities can range up to 15 years rather than just a couple of months.

For example, the Deutsche Bank programme alone increases the size of the fledgling Eurosterling MTN market by some 25 per cent. Investors also worry that the practice of having just four or five committed dealers (although Mitsubishi's MTN programme has 14 committed dealers) damages the transparency of the market. They argue that only the practice of many competitive marketmakers can ensure liquidity at a fair market price.

According to dealers active in the market, the illiquidity charge is misplaced. They point out that dealers under an MTN programme are legally bound to make a market in bonds issued under a programme for the life of the programme.

Indeed, during the current bond market depression, prices of some MTNs have held up better than equivalent straight Eurobonds.

The market continues to be handicapped by its lack of volume and big corporate issuers face a definite limit to the amount that they can borrow.

Until the "critical mass" of the international MTN market increases, large programmes will be few. The cost of setting up a programme does not justify the return.

Many big name borrowers may continue to steer clear until the internal momentum of the market has carried it farther forward.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Heller. Finance(i)†◆	100	1992	2	(i)	100.05	Fuji Int.Finance	-
Skopbank◆	40	1991	1	zero	93.725	Mitsubishi Finance	6.695
Itoki Kosakusho◆	100	1994	4	$(4\frac{7}{8})$	100	Nomura Int.	-
Yukong Ltd(m)†◆	70	1998	8	(m)	100	Manu.Hanover Asia Ltd	-
CANADIAN DOLLARS							
GECC◆	125	1995	5	$11\frac{1}{4}$	101.65	Scotia McLeod Inc.	10.806
ABB Finance Inc.◆	100	1992	2	$11\frac{1}{2}$	$101\frac{1}{4}$	Bankers Tst.Int.	10.772
SOAE◆	100	1995	5	$11\frac{5}{8}$	101.65	Wood Gundy Inc.	11.177
EIB◆	150	2001	10	$11\frac{1}{4}$	101.40	JP Morgan Secs.	11.012
AUSTRALIAN DOLLARS							
Deutsche Bk◆	100	1993	3	$12\frac{3}{8}$	100.95	Deutsche Bk Cap.Mkts.	11.980
C'wealth Bk of Australia◆	150	1998	7	$12\frac{3}{4}$	$101\frac{1}{4}$	Hambros	12.472
Cad.Schweppes Aust.◆	75	1993	3	$13\frac{1}{4}$	$101\frac{7}{8}$	Dresdner Bank AG	12.463
FIH Int.SA(l)◆	65	1996	5.167	(l)	101.90	JP Morgan Secs.	-
D-MARKS							
CREDIOP Fin.(j)◆	30	1992	2	16	$100\frac{1}{4}$	Merrill Lynch AG	15.845
Spar Int.Fin.BVΦ	90	1994	3	$9\frac{5}{8}$	100.27	DG Bank	9.517
Korea Devt.Bank◆	200	1995	5	9	101	Bayerische Landesbank	8.745
FRENCH FRANCS							
Credit Local◆	1bn	1998	7.917	$10\frac{1}{2}$	101.90	Credit Lyonnais	10.132
Republic of Finland◆	1.2bn	1995	5	$10\frac{1}{4}$	101.45	BNP Capital Mkts.	9.869
STERLING							
Stars 1 Plc(b)†◆	475	2029	$3\frac{1}{2}$	(c)	100	Baring Bros.	-
ASLK-CGER IFICO(k)◆	50	1995	$4\frac{1}{4}$	(k)	$101\frac{7}{8}$	Baring Bros.	-
British Gas(g)◆	125	1993	$2\frac{3}{4}$	13	103.725	CSFB	11.292
ECUs							
Interfin.Cr.Nat.◆	100	1995	5	$10\frac{1}{4}$	$101\frac{7}{8}$	Bk of Tokyo Cap.Mkts.	9.758
SWISS FRANCS							
Sinko Kogyo Co.(h)★★Φ◆	80	1995	-	$5\frac{1}{4}$	100	HandelsBank Natwest	5.250
Cr.Local de France◆	100	1996	-	$7\frac{1}{2}$	102	Bque.Paribas Suisse	7.079
KDK Corp(f)★★§	50	1995	-	6	100	Nikko (Swtz) Fin.	6.000
GECC★★◆	125	1995	-	$7\frac{5}{8}$	102	UBS	7.135
Ontario Hydro◆	150	2001	-	$7\frac{3}{8}$	$101\frac{1}{2}$	JP Morgan (Suisse)	7.160
Tokyo Leasing◆	30	1995	-	$8\frac{1}{8}$	100	Dai-Ichi Kangyo Bk	8.125
GUILDERS							
World Bank◆	300	2000	10	$9\frac{1}{4}$	101.35	ABN Amro	9.039
EIB◆	300	2000	10	$9\frac{1}{4}$	100.90	Rabobank	9.109
DANISH KRONER							
Kredietbank Int.Fin.◆	300	1995	5	10.30	101.90	Kredietbank NV	9 801
SWEDISH KRONOR							
Unibank◆	400	1996	6	$13\frac{3}{4}$	$101\frac{1}{2}$	Unibank AS	13.308
YEN							
Tor.Dom.Bk (Cay Is.)(d)†◆	2.5bn	.1991	1	(d)	$100\frac{7}{8}$	LTCB Int.	-
Minebea Co.(a)◆	27bn	1995	4	7.9	$100\frac{1}{2}$	Nomura Int.	7.903
Prov.of Nova Scotia(e)◆	30bn	2000	10	7.7	100.80	Yamaichi Int.	7.583
SBAB◆	20bn	1993	3	$7\frac{1}{2}$	$101\frac{3}{16}$	Nomura Int.	7.047
LUXEMBOURG FRANCS							
Credit Agricole★★◆	300	1994	3.167	10	102	BCEE	9.220
Morgan Stanley★★◆	500	1994	4	10.18	101.95	BGL	9.571
Locafrance★★◆	300	1994	4	10	101.85	Banque Indosuez	9.424
BNP★★◆	300	1996	5	$9\frac{7}{8}$	$101\frac{3}{4}$	Cregem	9.420
Japan Elec.Comp.★★◆	500	1995	5	10	102	BGL	9.479
Cerinvest★★◆	400	1993	3	10	102	Kredietbank (Lux.)	9.207

★★Private placement. §Convertible. ΦWith equity warrants. †Floating rate note. ◆Variable rate note. ◆Final terms. a) Coupon payable semi-annually. b) Mortgage-backed issue. Expected average life - $3\frac{1}{2}$ years. Amount increased from £400mn. c) Coupon pays 3-month Libor + 35bp for first 10 years, then 3-month Libor + 50bp thereafter. d) Nikkei-linked. First 3 months + 1 day, coupon pays Libor + ⅛%, then fixed at 8% thereafter. e) Samurai issue. f) Put option on 31/3/93 at 107% to yield 9.002%. g) Fungible with existing £175mn deal from January 1991. Non-callable. h) Callable 11/6/93 at $101\frac{1}{4}$% decreasing ¼% semi-annually. Exercise premium fixed at 2.53%. i) Coupon pays 6-month Libor + 50bp. j) Redemption is in D-Marks on basis linking the nominal amount to be paid back to spot market exchange rate of Italian Lira. k) Coupon pays $26\frac{1}{2}$% on 13/3/91, then steps down to paying 10% semi-annually thereafter. Non-callable. l) Coupon pays $26\frac{1}{2}$% on 26/2/91 then steps down to 11.10% thereafter. m) Put option at par in years 5, 6 and 7 with a fee of 20bp if not exercised. Callable at par on each payment date after 5 years. Coupon pays 6-month Libor + 15bp. Note. Yields calculated on AIBD basis.

WORLD STOCK MARKETS

CANADA

TORONTO
Closing prices November 23

MONTREAL
Closing prices November 23

INDICES

NEW YORK

DOW JONES	Nov. 23	Nov. 22	Nov. 21	Nov. 20	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2527.23	(c)	2539.36	2530.20	2999.75 (16/7)	2365.10 (11/10)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	90.13	(c)	90.10	90.21	93.04 (3/1)	88.44 (24/9)	—	—
Transport	844.12	(c)	849.85	853.00	1212.77 (6/6)	821.93 (17/10)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	209.00	(c)	208.69	207.05	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2537.92 (-) Low 2521.04 (-)

STANDARD AND POOR'S	Nov. 23	Nov. 22	Nov. 21	Nov. 20	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	315.10	(c)	316.03	315.31	368.95 (16/7)	295.46 (11/10)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	369.71	(c)	370.68	369.66	437.37 (16/7)	346.86 (11/10)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	21.34	(c)	21.46	21.71	31.87 (3/1)	18.80 (29/10)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	172.39	(c)	172.73	172.48	201.13 (16/7)	162.20 (11/10)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	295.90	(c)	295.58	296.01	382.45 (5/1)	288.07 (30/10)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	349.04	(c)	348.77	348.29	469.60 (16/7)	325.44 (16/10)	485.73 (9/10/89)	54.87 (31/10/72)

	Nov. 16	Nov. 9	Nov. 2	year ago (approx.)
Dow Industrial Div. Yield	4.01	4.09	4.08	3.93
	Nov. 14	Nov. 7	Oct. 31	year ago (approx.)
S & P Industrial div. yield	3.39	3.55	3.54	2.97
S & P Indl. P/E ratio	15.47	14.48	14.43	14.25

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Texas Ut.	2,043,600	36¼	- 1⅛
MCA	1,626,200	65⅞	- 3⅛
Gen. Data	1,500,500	2	...
Boeing	634,000	44⅝	+ ⅜
Pepsico	609,700	25⅝	- ⅛
Exxon	581,000	51⅛	+ ⅜
Dominion Res.	573,600	47⅞	...
Caterpillar	572,200	39⅞	- 3
Philip Morris	541,100	48⅛	- ⅝
AT & T	531,700	32⅛	- ⅝

TRADING ACTIVITY

† Volume Millions	Nov. 23	Nov. 22	Nov. 21
New York	63.350	-	140.660
Amex	5,866	-	11.860
NASDAQ	(u)	-	116.666
Issues Traded	1,880	-	1,969
Rises	643	-	709
Falls	681	-	740
Unchanged	556	-	520
New Highs	7	-	6
New Lows	24	-	55

CANADA

TORONTO	Nov. 23	Nov. 22	Nov. 21	Nov. 20	1990 HIGH	1990 LOW
Metals & Minerals	2582.65	2568.41	2556.58	2561.76	3453.05 (4/1)	2486.60 (8/11)
Composite	3118.42	3103.81	3103.10	3107.20	4009.47 (3/1)	3009.91 (16/10)
MONTREAL Portfolio	1661.00	1658.05	1659.03	1666.10	2060.90 (3/1)	1607.24 (16/10)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Thursday 22 November 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	13.3m	398	+2	Kobe Steel	5.2m	475	+20
S'tomo Metal	7.9m	410	0	Shinko Elec	4.9m	962	+12
Kyosan Elec	7.0m	1,580	+10	Hitachi	3.9m	1,100	+40
NKK	6.9m	380	+15	M'bishi Heavy	3.9m	663	+15
Honshu Paper	5.3m	2,310	+30	M'bishi Estate	3.6m	1,260	+80

■ A wall of mistrust and cynicism among the electorate Page 3

FINANCIAL TIMES SURVEY

MEXICO

Monday November 26 1990

■ Agricultural reform is needed. But will it really happen? Page 5

Moves to form part of a North American free trade area show President Salinas (right) has persuaded the world community to take his country's development prospects seriously. But modernisation also needs a clean electoral process, says **Robert Graham**

There is life after debt

MEXICO HAS broken down one of the most formidable barriers in the path of economic take-off.

President Carlos Salinas de Gortari and his youthful team of US-educated technocrats have persuaded a sceptical international community to take Mexico's development prospects seriously.

Undoubtedly, the catalyst has been the move to form part of a North American free trade area with Canada and the US. Whatever the outcome of the Uruguay Round of the Gatt negotiations, Mexico's fate has become inextricably locked into that of the US. Today in Monterrey, Mexico's business capital, Presidents Salinas and George Bush are expected to lay down the timetable for the Free Trade Agreement (FTA) they outlined in June.

Seventy per cent of Mexico's $50bn trade is with the US. Mexico is the US's third biggest trading partner. Nevertheless, the two countries have long behaved like two neighbours living back to back.

"Contrary to traditional thinking in Mexico that the US has to be kept at a good distance, we came to the conclusion that reality was creating a very strong economic inter-relationship and that it was therefore better to give it direction," says Mr Salinas.

The president clearly hopes the FTA will prove Mexico's passport to the first world. With political will, there is a synergy between Mexico's low labour costs, its expanding market of 82m inhabitants and its oil stocks on the one hand and US technology, financial muscle and its sophisticated market on the other.

Already the fruits of abandoning decades of protectionism and opting for export-led growth are apparent. Oil now accounts for under 40 per cent of exports. The in-bond *(maquiladora)* business, geared exclusively to the US market, is growing at 20 per cent a year and employs more than 600,000 people. In the last six years, exports of manufactured goods (notably in the automotive sector) have increased 4.5 times – faster than all the Asian NICs save Thailand and Singapore.

Public and private investment is growing at 10 per cent this year amid signs of a broad-based recovery. Annual growth rates should move from 3 per cent to 6 per cent by mid-1994 at the end of Mr Salinas' six-year term. The question-marks concern inflation, which has slipped back to an annual 30 per cent, and the extent to which the peso is going to be pegged to the dollar or a basket of currencies.

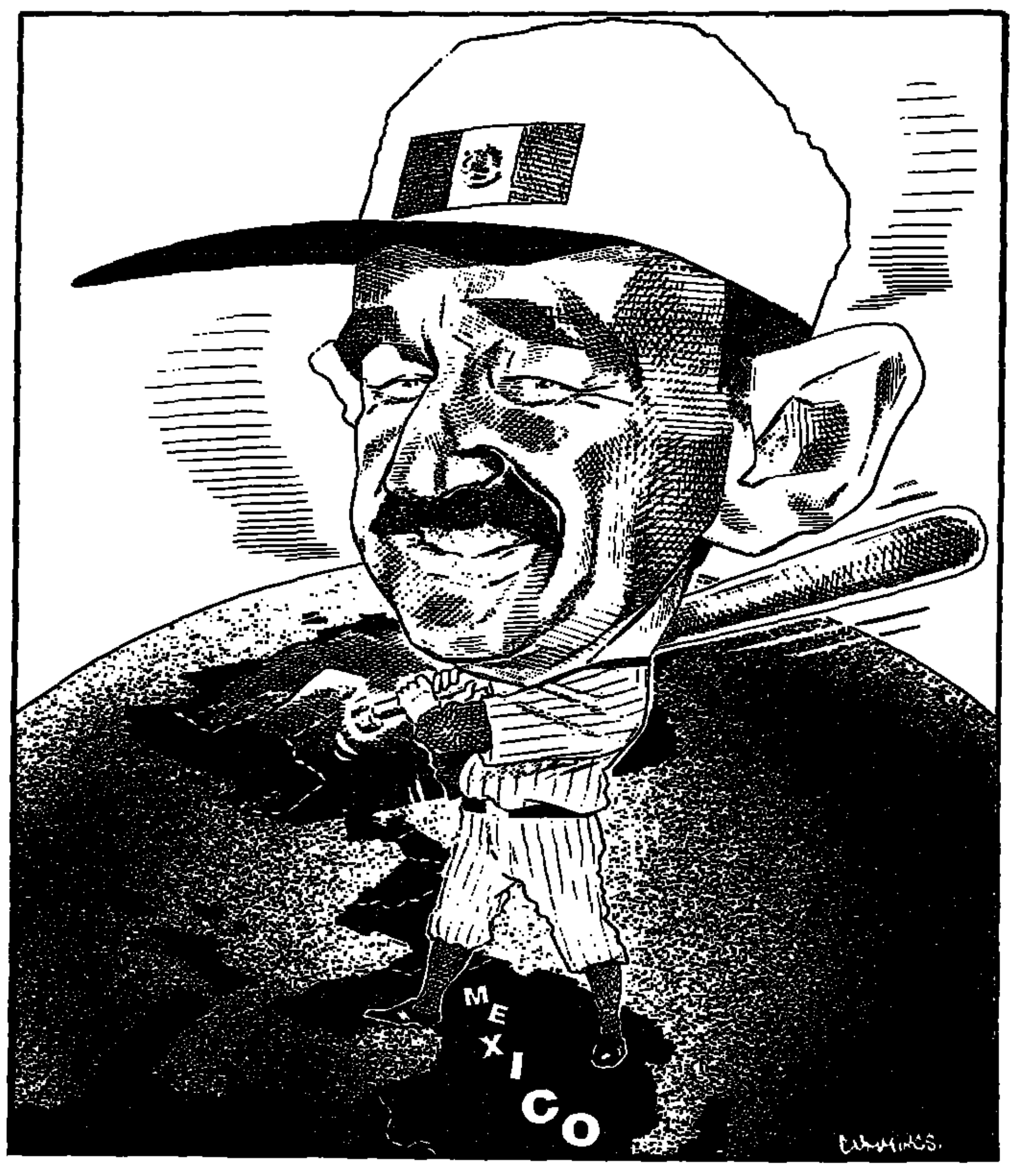
The government has just brought off an agreement with the employers and unions to continue the "pact" on holding down wages and prices throughout 1991. This tripartite consensus on stabilisation and reactivation of the economy began in 1987 and has been a vital component in the recovery.

As an oil producer, Mexico is also one of the few direct beneficiaries of the Iraqi invasion of Kuwait. Production has been raised by over 100,000 b/d and would be higher if Pemex, the national oil company, had husbanded its resources better. Windfall oil profits will be around $2bn this year, prudently channelled into paying off Pemex debt and government domestic debt.

Over the past two years, the political poise and impressive technical skill of the Salinas administration have erased all memory of the 1970s profligacy and the near-panic that marked the onset of the debt crisis in 1982-83. He has proved that harsh stabilisation measures are compatible with deregulation and liberalisation.

The 42-year-old Harvard-educated president has set a fast agenda, taking privatisation further than expected. This year he decided to privatise the banks, nationalised in 1982 during the final days of the Lopez Portillo government. "I decided to reverse the first nationalisation in Mexican history," says Mr Salinas, "because I became convinced this would provide a tremendous stimulus for private investment and this could provide the government with additional resources for social programmes."

By the end of next year all 18 banks should be divested. Meanwhile bids have just closed for 20 per cent of the national telephone company, Telmex. "We are putting a very conservative figure of $4bn on revenue from these privatisations for next year," says Mr Pedro Aspe, the finance minister managing the sales. The treasury should obtain at least $7bn, perhaps $10bn.



This is the biggest privatisation programme carried out by a developing country, and will boost Mexico's booming stock market. Preference is being given to Mexican investors who should repatriate some of their $25bn flight capital. Under Mr Salinas $4.5bn has been repatriated while foreign investment in the stock market has topped $1.5bn.

Privatisation of the banks required a potentially sensitive change in the constitution. Yet this provoked little political protest. Dogma is being replaced by pragmatism, even if in public the authorities still make obeisance to the sacred cows of the revolution like national control of oil and communal ownership of land

Mexico's transformation has been hard-won. Tough adjustment plans, initiated by the de la Madrid administration, caused a prolonged recession. Incomes are still below the levels of the previous decade and 41m people live precariously on or beneath the poverty line. This group suffered most as a result of cuts in spending to service debt.

The annual net external flow of resources averaged almost 6 per cent of GDP until agreement was reached in February with the commercial banks. The agreement using a full menu of options was the first among the big three Latin debtors, and reduced the nominal foreign debt burden from $91bn to $79bn. This still represents 44 per cent of GDP (as opposed to a one-time high of 76 per cent).

But as Mr Angel Guria, the chief debt negotiator, likes to point out: "Now there is life after debt."

The government is committed to strict control of public finances. The budget is close to being balanced with enhanced revenues from sweeping tax reform that have broadened the tax base and introduced efficient collection. However, there is tremendous political and social pressure to spend ever more on education, health and welfare. The gap between rich and poor is huge and widening. For instance, some 17m Mexicans live almost wholly outside the modern economy in conditions of extreme poverty. The poorest 30 per cent of the population consume only 13 per cent of foodstuffs, while the richest 10 per cent consume 21 per cent.

To achieve quicker results, Mr Salinas has set up an anti-poverty programme, called Solidarity. It is involved in agricultural loans, emergency school building, food kitchens, housing and water supplies. Its 1990 budget of $1bn is matched by funds from the individual states.

Critics claim Solidarity has become an instrument to help the ruling Institutional Revolutionary Party (PRI) retain the allegiance of a disaffected electorate. This may be partially true: but Solidarity's existence also reflects the inability of formal bureaucracy to help Mexicans at a grass-roots level. "With Solidarity, which does not give things for free, they get things much faster – in terms of months not years," says Mr Salinas.

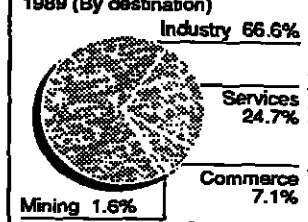
The opposition parties' mistrust of the anti-poverty programme is symptomatic of a more general feeling that the government is unwilling, or unable, to disentangle the PRI from the apparatus of state. The cards still seem too stacked in the PRI's favour. This month's local elections in the state of Mexico provoked a storm of opposition allegations of fraud. Nowhere else in Latin America today are election results so controversial and Mr Salinas has still to prove that perestroika has come to the political system.

A clean electoral process is the missing component in the modernisation of Mexico. The test comes in next year's mid-term elections when a new electoral law and tribunal will be working. But such is the legacy of PRI orchestrated fraud that even if these elections are fair, the opposition is likely to cry foul, and no one will know the truth unless observers are admitted.

IN THIS SURVEY

Direct foreign investment

1989 (By destination)



Source: SECOFI

Editorial production
Gabriel Bowman/Sarah Murray
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Graphics Bob Hutchison

Renegotiation of debt and rising oil prices stimulate recovery

Economic confidence high

ECONOMIC CONFIDENCE in Mexico both among its more affluent citizens and investors abroad is higher now than at any point since the two decades preceding the financial crisis of 1982 when a very different country, protectionist and statist, enjoyed an average growth rate of 7 per cent.

In his second, characteristically sober annual *informe*, or State of the Nation address, President Carlos Salinas de Gortari was wise enough not to make any extravagant boasts or raise false expectations. He was able to point, though, to continued economic recovery – tentatively estimated by the Ministry of Finance at 2.5-3 per cent for 1990 – with growth this year certain to be above the population increase of about 2.1 per cent.

Mr Salinas might perhaps have laid more emphasis on the vital need to bring down inflation, the critical area of the administration's otherwise skilful handling of the economy management, with the rate this year certain to be double the 15.3 per cent officially projected at the start of the year.

For good political reasons, he paid due acknowledgment to the large percentage of the population most hurt by it, not the least with a lengthy discourse on the National Solidarity Programme drawn up to help those most in need, as well as to the problems of the agricultural sector.

On the brighter side, in his *informe* Mr Salinas said that foreign exchange reserves stood at $8.41bn, the highest since 1988. The figure is, of course, a gross one not including some $5bn in liabilities to the International Monetary Fund and short-term lines of credit.

Nevertheless, his speech was a reassuring one following a well-disguised crisis in the early spring of this year. At the end of last March the level of gross reserves was reliably understood to have dropped below $5bn, giving a net negative position of more than $1bn.

They plummeted as a result of the Mexico government's repayment of the $1.33bn bridge-loan package put together by international lending organisations to tide it over the debt renegotiations and its contribution to $7bn collateral required to guarantee principal and interest on the 30-year bonds exchanged for old debt – requiring resort to a new short-term facility of $1.3bn from the US Federal Reserve and Treasury.

It was rapidly paid back following finalisation of the March 28 accord with Mexico's commercial bank creditors on the reduction and rescheduling of $47bn of external public debt at the end of March – Mr Salinas's prime objective stated during his presidential campaign.

The effect of the accord has been dynamic in terms of investor confidence even if it has done little or nothing to alleviate as yet fundamental problems of poverty and grossly unequal distribution of income. In one fell swoop it reduced a total debt amounting to $92.24bn by $7.28bn.

Not only was the government given a breathing space but the accord gave a stimulus to the inflow of money. Ministry of Finance officials estimate that repatriation of capital will be about $3bn this year compared with $2bn last year.

Portfolio investment from abroad this year has been at least $1.5bn, with over $500m coming in through the new trust fund established by the state development bank Nacional Financiera. The under-valued "emerging" Mexican stock market survived the worldwide collapse triggered by the Gulf crisis better than any of the developed ones.

So far, despite relaxation of the regulations last year, disbursements of direct foreign investment have been somewhat disappointing and well short of the annual average of $5bn hoped for.

Authorisations by the Ministry of Industry and Commerce up until the end of September reached $2.67bn, however, compared with nearly $2.5bn for the whole of 1989.

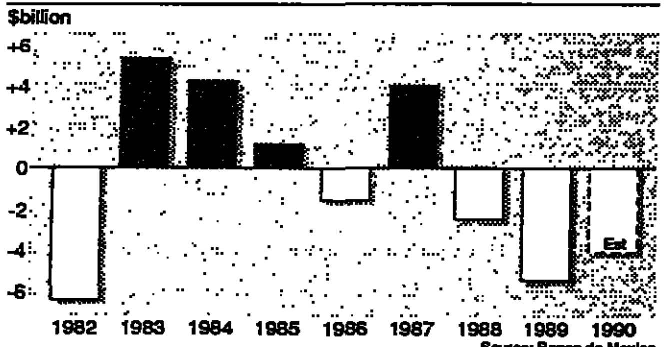
Mr Pedro Aspe, the finance minister, says that investment interest has been intensified by the prospect of negotiations of a free trade agreement with the US and Canada. In addition, international banks are now making inquiries about taking stakes in the 66 per cent majority-owned commercial banks scheduled for privatisation next year.

Thus, it has been possible to cover the widening current account deficit of $3.25bn in the first half of 1990 compared with a surplus of $702.7m in the same period of 1979 resulting from the bold *apertura*, or trade opening, involving a wholesale dismantling of trade barriers. A deficit of $6.13bn is projected for the whole of this year.

Despite "windfall" profit, Mexico is regretting its inability to benefit fully from the oil-price bonanza provided afforded by the Iraqi invasion of Kuwait because of limited production capacity, resulting from an 80 per cent fall in exploration and development investment since 1982.

Even so, an increase in exports of 150,000 barrels a day to a new platform of 1.36m b/d should mean that crude oil this year will generate extra oil income of anything from $1.5-3bn this year, according to official estimates.

Current account balance



Source: Banco de Mexico

On the eve of the 1991 budget presentation, interest rates for 28-day Cetes, or Treasury bonds, (the equivalent of the prime rate in Mexico), fell to a historically low rate of 23.9 per cent in the auction of the second week of November.

That compared with one of 47 per cent before the outline agreement on the debt accord was signed in July 1989 and a peak level of over 54 per cent previously. For the first time, the government was able successfully to float 360-day bills at a rate of 24.41 per cent.

That fickle thing called confidence was so high that *casas de cambio*, or the money exchange houses, were offering 5 pesos above the controlled rate that day, the eve of the 1991 budget.

So, having lowered the daily rate of depreciation of the peso against the dollar from one peso to 80 centavos six months ago, the administration cut the "slide" further to 40 centavos when in its latest agreement with the private sector, announcing an extension of the Pact for Economic Solidarity and Growth. That raised expectations that it was seeking to return to the fixed parity abandoned at the end of 1989.

Exchange rate policy for the future has not yet been decided. With up to 70 per cent of its commerce accounted for by trade with the US, the peso inevitably must be closely linked to the dollar. With the depreciation of the US currency, Mexico has become a more competitive exporter elsewhere but an appreciation of the dollar would adversely affect it.

Thus, the government is considering linking the peso to a basket of currencies or the IMF's special drawing rights. Some economists and businessmen think that the peso is overvalued but the general consensus is that in terms of inflation and purchasing power parity, with the "confidence factor" margin reflected by interest rates, it is still in line with the dollar and Mexico's predominant trading partner.

In 1991 another bonus will be receipts from the privatisation of the government's majority shareholding in Telefonos de Mexico (Telmex) and the 18 commercial banks, as well as the state-owned steel companies.

All these factors, not the least high oil prices and lower interest rates, which already this year have slashed the government's domestic indebtedness, provided an ideal base for the 1991 budget. So, too, did the government's achievement in raising tax receipts by an average of 8-8.5 per cent.

After what is understood to have been a tough, week-long struggle between the Ministry of Finance and the Ministry of Planning and Budget, the budget was set at 233.801bn pesos (about $80bn), a reduction in real terms of roughly 5 per cent from the 1990 expenditure projection which was clearly exceeded. The underlying objective is to bring down drastically the rate of inflation.

It has been conservatively based on the assumption of a $17 per barrel oil price – with Pemex's contribution to the exchequer calculated at 27 per cent. It also sets the target of bringing down the government's financial deficit to 1 per cent. With no tax increases, it is aiming at a 2.5-3 per cent growth rate.

In the compromise reached, however, appropriations for the social sectors were increased by 15.7 per cent, with a rise of some 41.2 per cent for the controversial National Solidarity Programme alleged by the opposition to be a scheme to win votes for the ruling PRI in areas where it is unpopular in next summer's mid-term congressional elections.

Poverty, malnutrition and illiteracy apart, the conquest of inflation is the main economic challenge. Up to the end of October, it rose by 22.7 per cent or 31.8 per cent on an annualised basis. Mr Salinas and Mr Aspe both insist that Mexico cannot live with even 20 per cent and that it must be lowered to a single-digit level.

What has gone wrong? Mr Mancera says that the main causes have been inflation abroad and the appreciation of the peso, with the consequent inflow of dollars.

The contrary retort is that, apart from the public sector price hikes imposed to eliminate distortions and reduce subsidies, the main inflationary factors have been the expansion of monetary aggregates resulting from a relaxation of government expenditure controls and a policy aimed at reducing interest rates. Another factor has been unpublicised selective price increases authorised by Secofi.

Mr Aspe believes that the inflow of dollars has accounted for only one fifth of inflation and public sector price increases 4 per cent. He does not admit to gross over-shooting of spending limits originally set for beyond 1990 but declares that "we are going to comply exactly with the budget."

If price rises threaten to exceed the 14 per cent target set in the 1991 budget, taxes will be raised and the expenditure cut, he asserts. "If we don't bring taxes down we are in trouble," he says.

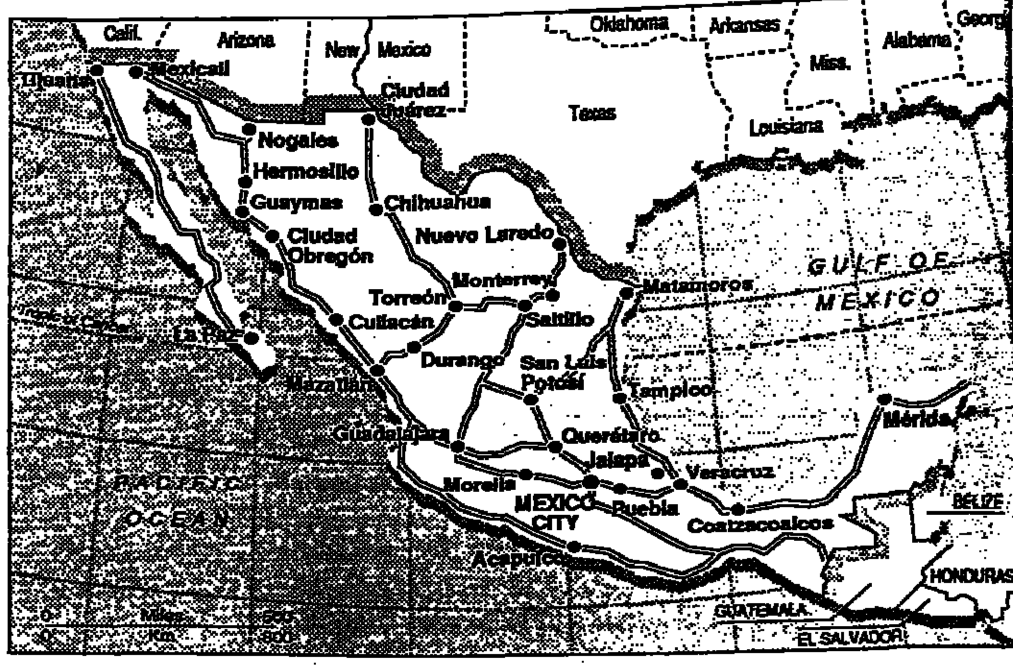
The wage and price restraining Pact for Economic Solidarity and Growth (PECE) was crucial in bringing down inflation from a level of rather more than 150 per cent in 1987 to just under 20 per cent, according to the Bank of Mexico's consumer price index which understates the rise in prices.

The future of the pact, fraying badly at the edges, as a means of controlling inflation is in doubt although Mr Salinas would like to see it institutionalised as a forum for consultation.

The leadership of the "official" labour movement has shown itself increasingly incapable of disciplining union dissidence and demands for higher wages.

Despite the successful debt renegotiations and the rise in oil price, doubt must remain about the Salinas administration's ability to build a base for sustained growth without grave social disruption.

Richard Johns



KEY FACTS

Area	1,973,000 sq km
Population	84.3m (1989 estimate)
Head of State	President Carlos Salinas de Gortari
Currency	Peso
Average Exch Rate	1988 $1 = P2,273.1
	1989 $1 = P2,461.5

ECONOMY	1988	1989
Total GDP ($bn)*	175.1	203.1
Real GDP growth (%)	1.4	2.9
GDP per capita ($)*	2,116	2,410
Components of GDP (%)		
Private Consumption	63.4	
Gross Fixed Investment	16.8	
Increase in Stocks	-0.2	na
Public Consumption	11.6	
Exports	17.8	
Imports	-9.4	
Ind. Production (% growth pa)	1.7	5.2
Current Account Balance ($bn)	-2.4	-5.4
Exports ($bn)	20.6	22.8
Imports ($bn)	18.9	23.4
Trade Balance ($bn)	1.7	-0.6
Main Trading Partners (% of total value)		
Exports		
USA	72.9	69.3
Japan	4.9	5.6
Imports		
USA	74.9	67.8
West Germany	3.5	5.9
Japan	6.4	4.6
Total external debt ($bn)	100.4	95.8
Debt service ratio (%)	43.1	44.1
Reserves minus gold ($bn)	5.3	6.3
Narrow money growth (% pa)	67.8	35.6
Broad money growth (% pa)	-17.5	115.4
Treasury Bill Rate (% pa)	69.1	45.0
FTA Mexico index (% change over year)	56.3	136.5

* = estimate

Source: IMF, Datastream, Economist Intelligence Unit

Jose Cordoba: "I see the President every day" *Ashley Ashwood*

Profile: JOSE CORDOBA

Pepe: a power behind the scenes

JOSE CORDOBA is the least visible of the group of brilliant young technocrats in the Salinas administration. But as chief of staff in the presidential office, few would deny the influence and power of "Pepe" Cordoba.

He controls the agenda of President Carlos Salinas de Gortari, co-ordinates the cabinet and its committees and is the filter for anyone trying to obtain the president's ear. His role is not merely administrative. "Pepe has a formidable intellect," commented one of

The filter for anyone trying to obtain the president's ear

his colleagues. "He is the president's ideas man and he has the capacity to stretch over an incredibly broad range of political and economic policy issues."

Argueably, one of the reasons for Mr Salinas' success since taking office in December 1988 has been his symbiotic relationship with his chief of staff – the tactician, organiser and adviser acting alongside the decision-maker and public actor.

At times, this 40-year-old economist has been used as a special emissary. For instance, he has been one of the go-betweens in discussions with Washington over the proposed North American Free Trade area. He is also the one person with unrestricted access to the president at the presidential compound in Mexico City of Los Pinos. "When the president is in Mexico City I see him every day alone for about 35 minutes in the mornings," says Mr Cordoba.

This combination of formal and informal roles has put him in a unique position. Furthermore his importance in the administration has tended to grow in tandem with the steady enhancement of President Salinas' own authority over the past two years.

Reserved by nature, and with the air of a worried intellectual, Mr Cordoba clearly prefers to work behind the scenes. This has laid him open to criticism in the press of wielding too much unaccountable power. He is extremely senstive to such criticism, arguing this demeans President Salinas' own ability and the collegiate atmosphere of the government, most of whom have similar generational and eduational backgrounds.

But undoubtedly Mr Cordoba is exposed to hostile gossip by virtue of his not being a native-born Mexican. He is the son of Spanish republican exiles brought up in Paris and educated at the Sorbonne, before going on to postgraduate economic work at Stamford in the US. There he met Mr Guillermo Ortiz, currently undersecretary at the Treasury, who encouraged him to come to Mexico. In 1985, he acquired Mexican citizenship.

Only native-born Mexicans can hold ministerial office or the presidency. This constitutional curb on his political ambitions tends to provide him with much greater independence than the rest of his colleagues in the administration.

Although the Mexican constitution has given enormous powers to the president as chief executive and head of state, little formal provision has been made for his staff needs. Successive presidents have thus adopted their own systems, operating either through private secretaries and a network of advisers or a formal secretariat. Mr Cordoba's job was established by presidential decree in December 1988 but he has tended to define it through his personality and friendship with the president.

Initially, he accompanied Mr Salinas on the latter's regular Thursday and Friday travels to the provinces; but now finds he needs to catch up on paperwork in Mexico City. As a rule, Mr Cordoba writes the drafts for the president's speeches and each November has co-ordinated the content of the state of the nation address with other members of the cabinet. This address spells out the guidelines of government policy for the coming year.

Mr Salinas tends to conduct government business through small cabinet committees rather than regular full cabinet meetings. Mr Cordoba organises the five committees which cover economic affairs, foreign affairs, national security, agriculture and social welfare. He

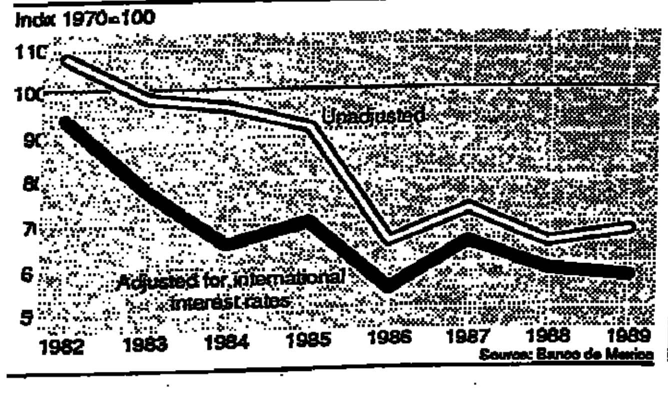
He is the only person regularly involved in all cabinet business

draws up the agenda and co-ordinates discussion papers for these meetings with the respective technical secretaries of each committee. He is the only person regularly involved in all cabinet business. In terms of policy planning, he is one of the key strategists in drawing up policies for next year's mid-term elections which will be a major referendum on the Salinas administration.

Mr Cordoba also plays an essential role in filtering people who wish to see the president. With power so highly personalised in Mexico, a presidential audience is much sought after. He concedes: "If you are too strict a filter, it becomes counter-productive."

Robert Graham

Terms of trade



Source: Banco de Mexico

The pace of political change remains slow, says Robert Graham

Electorate is still cynical

THE PACE of political change continues to lag well behind Mexico's economic transformation.

Significant electoral reforms were approved by the majority of the political parties in the 500-seat Congress in July; but they will not be tested until next year's mid-term gubernatorial and congressional elections. In the meantime, this month's local elections in the state of Mexico did little to clarify the Salinas administration's commitment to a transparent electoral process.

Amid cries of fraud from the opposition, the ruling Institutional Revolutionary Party (PRI) achieved almost a clean sweep of the 34-state deputy seats and the 121 municipal mayorships. The opposition complained the PRI was up to its old tricks, determined to reassert its hegemony after being humiliated by the strength of anti-government sentiment in the 1988 presidential elections.

The irregularities were fairly typical of those experienced in past elections – inflated electoral rolls, lax checking of voters' identities, stealing of voting urns and obstructing opposition voters and aiding PRI supporters. Even if the opposition exaggerated its complaints to embarrass the government, the fraud accusations nevertheless underlined the inability of the Mexican political system to conduct a non-controversial poll.

Having meddled with the electoral process for decades, the PRI and the government have built up a wall of mistrust and cynicism among the electorate, which is reflected in the high degree of abstentions. Only 30 per cent of the electorate voted in the State of Mexico elections.

The PRI, with its superior organisation and resources, is the chief beneficiary of a low poll. But this is no barometer of the party's appeal. Undoubtedly, the PRI has obtained some spin-off from the success of President Salinas' economic stabilisation programme. The ruling party in addition has profited from association with the government's successful direct action anti-poverty programme, Pronasul. For instance, considerable Pronasul funds were targeted to key areas such as Chalco in the State of Mexico, which witnessed a PRI victory.

The PRI's opponents appear to have lost, at least temporarily, the initiative. If one believes the PRI's own nationwide polls, support has declined in recent months for the two main opposition groupings – the conservative National Accion Party (PAN) and the left-wing Party of Democratic Revolution (PRD). However, the PRI has yet to prove it can rejuvenate itself and appeal to the mass of disillusioned voters.

Under the youthful leadership of Mr Luis Donaldo Colossio, a close associate of Mr Salinas, the party staged its 14th assembly in Puebla in September. The assembly saw a much more open debate but in the end the PRI is still caught in an unresolved dilemma. The new leadership wants to get rid of the corrupt corporate structure where control and privilege have been portioned out between the three sectors – labour, peasants and the "social sector". Yet, dismantling this structure, run by the so-called "dinosaurs", risks removing the party's organisation and therefore its ability to obtain the necessary votes.

The Puebla meeting saw an uneasy stand-off between Mr Colossio and the PRI-controlled labour movement, which feels most threatened by the party's modernisation. The three sectors were allowed to control 50 per cent of the delegates, the rest being chosen on a territorial basis by Mr Colossio's men. The assembly also agreed to set up a political council with 200 to 350 elected delegates whose principal task will be to choose the candidate for the 1994 presidency.

The PRI deliberately blurs its ideology, committed more to power than policies. Ironically, it has usurped the free market platform long espoused by the PAN. That party is thus

Cuauhtemoc Cardenas

torn between a majority who support, tacitly or explicitly, the government and a minority who believe that tactic weakens the PAN's credibility as an alternative political force. The majority, for instance, backed talks with the government on constitutional changes to privatise the banks and endorsed the electoral reform law.

The PAN has yet to recover from the tragic loss of Mr Manuel Clouthier, its forceful leader, who was killed in a car crash in 1989. It remains strongest in the North and won the first ever gubernatorial contest last year when Baja California was wrested from the PRI. Nevertheless, countrywide, it probably accounts for under 20 per cent of the vote. Its showing in the State of Mexico was disappointing, even accounting for the PRI's gerrymandering.

In its two years' existence, the PRD has failed to provide a coherent ideological and organisational framework for the political groups and personalities who coalesced round the charismatic figure of Cuauhtemoc Cardenas after he lost the 1988 presidential elections. The PRD ideology reflects an uncomfortable mix of old-fashioned Mexican nationalism, PRI corporatism and socialism. While this mix stirs emotional attachment to the ideals of the Mexican Revolution (in a way the PRI no longer can), the PRD's policies are vague beyond the oppositional.

The party seems unable to make up its mind whether the Mexican political system is best democratised through consensual reform or transformed east European style by a complete dismantling of the PRI's de facto one-party rule. Mr Cardenas is the party's greatest asset, with his reputation for integrity and the mantle of his illustrious father, the late President Lazaro Cardenas. He pulls in the crowds and inspires the allegiance of peasants in Michoacan or the slum dwellers of Mexico City. This is an important attribute in a country where half the population lives on or below the poverty line.

But his high profile leadership tends to confuse the PRD's purpose – is it a party in its own right or merely a vehicle to aid Mr Cardenas in his ambitions to contest the presidency again in 1994? He also has a rival in the shape of a fellow PRI deserter, Mr Porfirio Munoz Ledo. Mr Cardenas' tactic appears to be to let the latter assume the radical rhetoric so that he himself can present the PRD as a party of national consensus.

The PRD was alone among the six parties in Congress to oppose electoral reform. However, the new measures should provide a reasonable guarantee of fair elections. An essential element in past abuses was the poorly prepared and supervised electoral register. It is hoped that a new register recording each voter's photograph, identity and finger prints will be ready for next year's elections.

A new federal electoral institute (IFE) has been established with a 21-person executive. There will be seven PRI members as opposed to 21 out of 36 on the disbanded body. The opposition is still nervous that the balance of impartiality can be tipped because of the president's power to appoint six "independent" lawyers to the executive. But some check on such bias is provided for in a newly created federal electoral tribunal (TFE), run on similar lines to the Supreme Court.

How privatisation has been managed

Taking the slow route

MEXICO'S privatisation programme raises many of the questions that will soon be faced by other would-be privatisers in eastern Europe. First, how quickly, and in what order, should public companies be sold? Second, what procedures should be adopted to sell the companies? And finally to whom they should be sold?

There is usually a trade-off between selling off the companies fast and waiting until demand for public companies has picked up. Mexico has adopted the slow route and kept the big privatisations until the end.

Admittedly, Mr Salinas's predecessor, President Miguel de la Madrid, had "disincorporated" (that is privatised or liquidated) about 600 state companies (over half the total number of public companies) during his presidency. But of these only 150 were sold; most were small, or bankrupt, and often both. Although the privatisation programme started in 1983, by June 1988 privatised companies had raised no more than $500m.

As Mexico's economy has grown stronger, the amounts collected have risen – and in turn have helped sustain economic recovery. In two years in power, the Salinas administration has completed about 60 privatisations (many left over from Mr de la Madrid).

It has privatised the airline Mexicana and sold off a number of mining companies, the largest being Cananea (which fetched $475m). It has privatised a transport company for $80m, some sugar mills also for $80m and a couple of steel and iron companies for about $70m. Since June 1988 another $2.5bn has been raised from sales.

By the end of this year, the government should have sold its controlling stake in Telmex, the state telephone company; once completed the sale should fetch $3-4.5bn. By next year the government plans to sell the steel company Sidermex for up to $1bn. It will sell (in bits) the state fertiliser company, which has assets worth $2bn.

The big prize will be the banks; they may fetch about $4-6bn. In all, Mr Pedro Aspe, Mexico's silver-tongued finance minister, hopes to raise $10bn from privatisations next year.

The government has forestalled a lot of the criticism of the privatisations, partly by giving workers cheap shares in the companies. Mr Jacques Rogosinsky, who looks after the privatisation unit in the ministry of finance, admits that "all of us anticipated more opposition than there has been".

Further, Mr Salinas has been explicit about what he will not privatise. Although many do not believe him, he has long been adamant that he will not privatise those sectors whose status is protected by the constitution (such as oil, electricity and postal services).

Still, there have been criticisms of the privatisation procedures. The government until recently sold public companies through closed auctions; it tended to evaluate simultaneously the merits of the investors (such as how solvent they were or how much market power they had) and the price they bid in the auction.

At least three times between 1988 and 1989, the government rejected the highest bidder at the final stage of the auction. Sometimes the highest bidder dropped out and the whole process of selling the company had to be started again. The privatisation programme at some points looked shambolic.

The government may have now learnt its lesson. It has introduced a two-stage process for the sale of the banks and Telmex. First, potential buyers have to pass a pre-qualifying round and pay a deposit to enter it. Success in this round is determined by how "suitable" (on the basis of solvency, market power, expertise and so on) buyers are.

The second, and later, stage is pretty much a straight auction, based largely on price, open to all the pre-qualifiers.

Apart from making the process of privatisation more transparent, the two-stage process gives investors and the government more time to evaluate the soon-to-be private companies and make suitable commitments.

Finally, the government has also been criticised for selling too many firms to Mexico's huge, usually Monterrey-based conglomerates. Mr Jesus Silva Herzog, a much-respected finance minister under President de la Madrid, argues that the privatisation is "helping to reinforce a process of concentration of wealth and power in the Mexican economy".

Some suggest that the government has been too generous to the big conglomerates in return for their support for the government's economic programme and its price controls in particular.

The government is further criticised for creating a few monopolies (admittedly in the tradeable sector). For example, it has sold Cananea to Mexico's only other important copper company and given it control of 96 per cent of Mexico's copper market.

Mr Aspe has, to his credit, put restrictions on how much individual investors can buy in the banks and telephone companies. The government claims that if it does not sell off the companies to rich Mexicans, it will have to sell them off to foreigners (whose participation in the big privatisations is limited). This will be even less popular with Mexicans.

While there is merit in this defence, the government should, perhaps, have experimented with some wide-scale public share-offerings with cheap shares to encourage the small investor.

It could have broken Telmex into two companies, and reduced its monopoly power. As a finance minister first, and privatisation chief second, Mr Aspe is probably too concerned with raising revenues and too unconcerned with the effect that privatisation is having on Mexico's industrial structure.

However, Mexico's privatisations have been better managed than most of those in the developing world. As one senior Mexican official warns, "there is a tendency all around the world for privatisation programmes to underestimate the complexity and time-consuming nature of each transaction."

Mexico has been no exception. But for most Mexican privatisations there has been more than one bidder, a fair price has been achieved and the public's support for the programme has not waned. Given the state of Mexico's economy over the past few years, not much more could have been expected.

Damian Fraser

Damian Fraser on reversing nationalisation

Banks go up for sale

THE PLANNED privatisation of Mexico's banks is probably President Salinas's most audacious decision yet. It would be the first time in Mexico's history that a full-blown nationalisation has been reversed.

While the privatisation was expected, most financiers reckoned the president would delay until after the crucial federal elections in August 1991. But the government, it seems, could not wait. Why?

● Money. The banks could fetch anything from $4-$6bn, around a tenth of Mexico's internal debt. Mr Pedro Aspe, the finance minister, hopes to cut inflation by reducing the size of outstanding debt.

● Interest rates. The government correctly guessed the announcement would increase the financial market's confidence and cause interest rates to tumble. Every one percentage-point fall in interest rates saves around $500m in debt-service payments.

● Deepening financial market. In 1989 the government liberalised the banking sector by letting the banks set deposit and lending rates, cutting reserve requirements and eliminating compulsory credit channelling to preferred sectors. However the banks probably could not compete effectively, or invest sufficiently, until the government stopped being majority owner (and implicit guarantor) of them all.

● One-stop banking. Mr Aspe, and his coterie of technocrats, are much taken by the supposed synergies of universal banking (that is, when banks, brokerages, insurance companies and so on form groups)

Until the government lets go of the commercial banks, the financial supermarket cannot be built.

● Foreign investment. The new laws allow foreigners up to 30 per cent of the banks – although this limit will probably be scrapped when, and if, a North American free-trade agreement is achieved. The government hopes foreigners will help Mexico modernise its banking system, and form cross-national strategic alliances with Mexican banks. Despite early scepticism, the banks seem in demand. Just about every Mexican brokerage is showing an interest in one of them. Mr Roberto Hernandez of Acciones y Valores, probably Mexico's most successful brokerage in the past decade, will compete for the biggest bank, Banamex (worth up to $1.8bn) possibly against Agystin Legoretta of Inverlat, and a management buy-out group.

Inversora, another brokerage, is rumoured to be bidding for Bancomer (worth up to $1.5bn). Operadora de Bolsa, Vector and Grupo Visa are in the running for Serfin (around $700m). The staff of the smaller regional banks may buy themselves out.

Big American banks do not look interested. However, Banco Santander of Spain, BNP and Paribas of France,

NATIONALISED BANK STATISTICS

Bank (Abbrev)	Market cap (US $m)	% of total	Book value (US $m)	Price/ book value
Banamex	1,744	31.67	1,281	1.36
Bancomer	1,411	25.63	1,223	1.15
Serfin	649	11.79	525	1.24
Comermex	338	6.13	230	1.47
Banorte	218	3.95	131	1.66
Intenal	215	3.90	184	1.17
Bancen	162	2.95	87	1.87
Promex	137	2.49	88	1.55
Somex	121	2.20	143	0.85
Confia	119	2.16	78	1.52
Atlantico	111	2.02	81	1.38
Banoro	103	1.87	114	0.90
Multiba	88	1.59	71	1.24
Cremi	69	1.25	74	0.94
Banorie	22	0.41	22	1.02
Total	5,506		4,331	1.27

*Based on market prices at November 13, 1990. Of the 18 nationalised banks, Bancreser, Banpais and BCH are not listed. Source: Baring Research

possibly Nomura or Yamaichi from Japan, NMB Bank of Netherlands and others are all being talked about as potential (minority) acquirers.

What will they get for their money? The banks look profitable enough. In the year to July the 18 banks collectively made $1bn. Banamex made $175m, Bancomer $131m and Serfin $123m. But the source of the banks profits may not last much longer.

First, over the past five years, there have been huge margins between borrowing and lending – as high as 10 per cent, and averaging half that. But the spread is falling as banks become more competitive. Mr Hernandez reckons that within two years the spread will reach 1.5 per cent.

Second, inflation has been high and agile banks have been able to pocket some of the "inflation tax" which arises when current accounts pay no interest. But if the austerity programme works, inflation could fall to single digits within three years.

Third, the government budget deficit has been huge: it averaged 12 per cent of gross domestic product from 1982 to 1988. Government loans equalled 10 per cent of bank loans in 1982, and 50 per cent in 1988. Money market funds comprised 7 per cent of the broad money supply in 1982 and 40 per cent in 1988.

Expansion of this no-risk debt has provided easy pickings and fat commissions for the banks. But the government is no longer borrowing that much; partly thanks to privatisation receipts it may run a deficit next year of just 1-2 per cent of GDP.

Instead, the private sector (which since 1982 has hardly borrowed at all) will replace it as the big borrower. Last year private sector lending accounted for 14 per cent of gross national product; this year it should equal 17.5 per cent; within three years it should double that.

The skills that served so well in the 1980s will not be the same as those that profit in the 1990s. As profit margins fall, and economies of scale dominate, the bigger banks will be put at an advantage relative to the smaller ones. All banks will have to re-learn credit risk analysis, as the private sector takes over from the public sector as the big borrower.

Successful banks will start to develop, and securitise, Mexico's almost non-existent mortgage market. Many will expand into mergers and acquisitions, venture capital and credit cards, all of which are immature and profitable markets in Mexico. In short, the days of fat margins, no risk loans and government acquiescence are finally over.

The country is moving towards the global capital market, says Richard Johns

Stock market recovers

SLOWLY, AND probably as fast as it can politically, Mexico is moving towards becoming part of the global capital market. The co-operation accord concluded on October 19 between the securities and exchange commissions of Mexico and US was symbolic of that trend.

With its emphasis on mutual reinforcement of supervision and self-regulation, the accord recognised the increasing scope for foreigners to invest in Mexican companies as well as the growing maturity of the country's stock market.

Having shown the greatest volatility of all stock markets at the time of the October 1987 crash when its index plunged precipitously, the worldwide shock in the aftermath of the Iraqi invasion of Kuwait was absorbed by the BMV index with relative equanimity. No intervention was required by Nacional Financiera, the state development bank, which is entrusted with responsibility for supporting the market.

Despite a 19 per cent fall in real terms in the third quarter after reaching a historic peak of 683,642 points on July 25 just before the crisis, the BMV index rose from 420,880 at the end of 1989 to 522,083 at the end of the third quarter. Its performance in the year up to the end of September was better than that of any developed market, according to Morgan Stanley Capital International's latest survey.

By November 9 it had recovered to 597,402, giving a market capitalisation of 112,465.3bn pesos, the equivalent of $38.5bn, compared with the $35bn reached before "El Crack Bursatil" of 1987. Yet in international terms Mexican stocks are a bargain: at the last count the average ratio of prices to earnings was only 8.66:1.

Early this year, though, the prices of marketable stocks surpassed their asset value with the result that the food products company Gamesa made a 3.2bn peso share issue – the first since 1987. Subsequently, there have been several other important issues, especially one of 150bn pesos by Cifra last month, which added depth to the market, thereby greatly increasing the scope for and interest of foreign investors.

After signing the accord with his Mexican counterpart, Mr Richard Breedon, president of the US Securities and Exchange Commission, politely suggested that "for the future the full benefits of open markets and internationalising capital flows will not be felt until existing restrictions are finally removed."

At the time he did not want to minimise the importance of the steps already taken. The process has been a slightly hesitant one lagging far behind Mexico's – arguably too rapid – *apertura* or trade opening, but progress has not been inconsiderable and seems irreversible.

The most visible internationalisation of the Mexican securities market has been the over-the-counter trading on the Nasdaq of the American depositary receipts of Telefonos de Mexico (reckoned to be already 20-25 per cent under foreign ownership), Tamsa, Cifra, EPN, Sidek and Sanluis.

As it is, foreign participation in the Mexican equity market is becoming an increasingly significant factor in overall investment as a whole. The *fideocomisio*, or trust fund, for so-called "A" shares – with patrimonial but no voting rights – administered by Nacional Financiera was established late last year and has been a success.

Foreign capital invested in it was $550m early this month with just over 80 per cent accounted for by the shares of 10 companies led by the Kimberly-Clark paper group, the Cifra holding company and the Alfa conglomerate now concentrating mainly on petrochemicals and steel in a market in which 21 or 22 stocks are actively traded out of a total of 200 listed.

Mr Oscar Espinoza Villareal, president of Mexico's securities and exchange commission, the Comision Nacional de Valores (CNV), says others are planning ADR issues, adding that: "We are pushing for more Mexican companies to get quoted on other markets."

Yet money invested in the Nafinsa trust this year has been very much less than the inflow in the form of purchases of "B" shares in the limited amount of marketable stock which has long been open to foreign ownership up to a limit of 49 per cent.

Mr Espinoza says that foreign investment in them has been around $900-1,000m so far this year. But it is impossible to say how much the accumulative amount has been.

Similarly, it is hard to quantify how much Mexican money it has been possible for foreigners to invest in flourishing mutual stock and fixed interest rate funds in which their ownership is limited to 49 per cent.

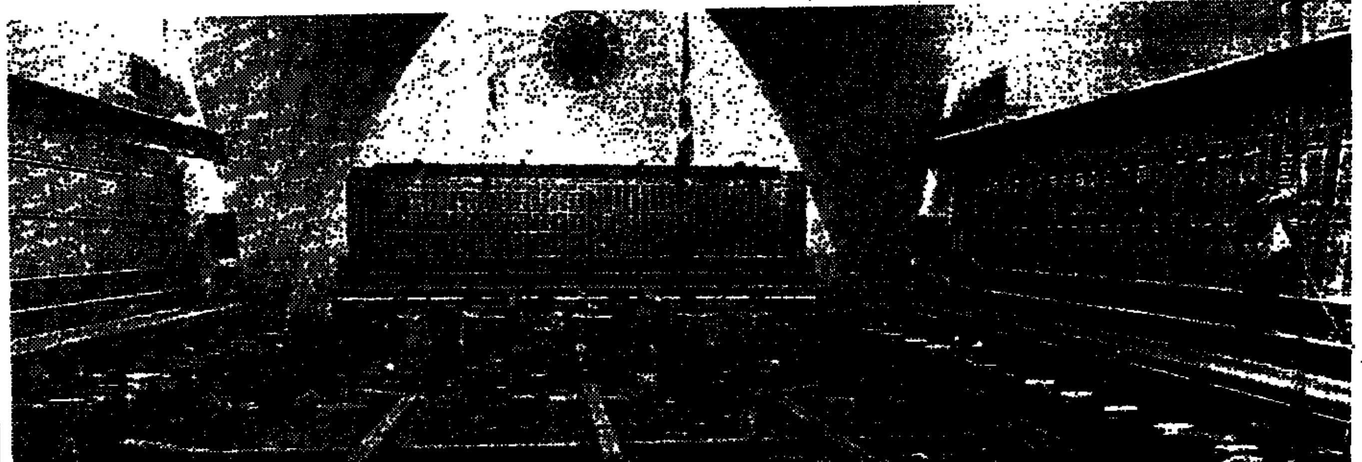
Further foreign investment should be stimulated by the decision to allow companies from abroad – and also management companies – to open research offices, with Barclays Securities being the first to be authorised.

Mr Espinoza's belief is that "markets are more efficient when there are more participants". The first requirement is consolidating "a good structure for the market, an adequate legal environment."

Scrutiny and surveillance of the market are close with an on-line stock exchange system giving real-time details on every transaction. The 1989 Securities Market Law has clearly defined the use of "insider information" and spelt out tough sanctions against it.

Short selling has just been given the go-ahead and market makers will be introduced once their role has been defined, while options trading has been under study for over a year.

For the future, among the CNV's main priorities are the development of a market for medium-sized companies with a capital of $3-30bn, improvement of capital availability, increased savings, not the least through pensions funds, and a big increase in individual accounts, which number a mere 2,000, compared with 50-60m in the US.



The Stock Exchange in Mexico City: it no longer seems so volatile

AGRICULTURE in Mexico needs reform. The president – and almost everyone else in Mexico – agrees. Output per agricultural worker is no higher than it was in 1960. Mr Salinas, admitted in his recent *informe* that agriculture "suffers from increasing and rapid decapitalisation, excessively small holdings and grinding poverty" and that it is "imperative" to find "dignified solutions for the life of the *campesino*". These solutions are likely to be announced in the next few months, perhaps before the end of the year.

Whatever these reforms are, the outcome is crucial, both politically and economically. The PRI has always relied on the support of the *campesinos*, and the anti-reformist National Campesino Organisation in particular, to win elections. The government's hopes of reforming Mexico's economy depend in part on changing a sector that is a heavy drain on public finances, and the major cause of rural poverty.

A market in Tehuantepec: the farming sector is a heavy drain on public finances

Agricultural reforms are crucial to economy

Solutions sought

Mexico's agriculture sector has, like those in many other developing countries, suffered in the past from a government policy of controlled prices, and erratic subsidies, and an overvalued exchange rate. On the whole, controlled prices meant falling ones – from 1965 to 1985 the price of a weighted index of Mexican crop prices fell by almost a quarter in real terms. The decline was *not*, for the most part, offset by ill-thought-out subsidies on credit, fertiliser, irrigation, water, insurance and so on. Further low prices and random subsidies encouraged farmers to make the wrong kind of investments and contributed to the huge government budget deficit.

The Salinas government says it would like to remove most of these subsidies, and let most prices adjust to their international levels – and is making some progress to that effect. In the past five years, the governments of both Presidents de la Madrid and Salinas have eliminated or tidied up many of the producer subsidies, and dismantled or reformed the loss-making companies that supported farmers.

But the governments have been much less quick to raise consumer prices to their international levels, or the guaranteed price to the farmer, in part because fixed (consumer) food prices were used to keep inflation down. As a result, many farmers were squeezed by a simultaneous fall in (real terms) of producer prices and subsidies. In 1988, for example, producer prices of wheat, sorghum, barley, rice, soyabean and copra were all below the (subsidised) international price; in maize Mexican prices were a little higher, but the differential was one of its lowest ever.

The Salinas government has recently put up the guaranteed price in grains and eliminated official pricing on all crops but corn and beans (the basic staple of the Mexican diet). But it still does not know how far to protect Mexican producers, given the protection offered to non-Mexican farmers.

The government claims that on a cost basis most Mexican grain producers are competitive with those in the US and Europe, but are not when subsidies to them are taken into account. So if Mexico takes the international, and subsidised, price as given, then a lot of Mexico's grain farmers will go bust – and they may not find work elsewhere. If the government raises domestic grain prices through tariffs (although this will not help grain exporters), the livestock farmers, who use grains as an feed, will be uncompetitive.

The government has still not decided what to do – much depends on what happens in the Uruguay Round. Mr Luis Tellez, the up-and-coming under-secretary for planning at the Ministry of Agriculture, says (for European ears): "If they don't agree in the Uruguay Round we are in big trouble; we don't have money to subsidise."

The second bout of reform, which unlike the price and subsidy reform has hardly started yet, is aimed at Mexico's archaic land tenure system. Three-fifths of Mexico's agricultural land belongs to *ejidos*; for the most part these are communal lands with each member (*ejidatario*) farming his own plot independently. This land cannot be sold, or (legally) rented out, or used as collateral as a loan; but it can passed on to children.

Mexico's private farmers are also constrained by law. They cannot own more than 100 hectares of irrigated land, or a rough equivalent of unirrigated land (such as land that sustains no more than 500 head of cattle).

The government's official line is that there is no need to reform the *ejido*, because there is no evidence *ejidos* are any less productive than private farms – a view supported by the World Bank. This is less surprising than it might seem. Mexico's small private farmers face many of the same dismal conditions as the *ejidatarios*.

First, there is no great difference in the size of plots of the *ejidos* and private farmers (excluding the big farms in northern Mexico). In both cases about three-fifths of their plots are less than five hectares.

Second, often neither the *ejidatario* nor the private farmer has a proper title to land. So neither invest that much, because they (and their creditors) are worried someone else might benefit. In the case of the private farmer, his land is frequently subject to claim and counter-claim, as encouraged by Mexico's bizarre agrarian reform laws. This fear of expropriation in part explains why the plots of private farmers are so small.

Thus any reform will incorporate both sectors. Mr Salinas's main goal is to increase the size of the average farm in both sectors. His other aim is to improve the security of tenure in the *ejido*. Among the things the government is thought to be considering are:

- It may enforce the legal (but hitherto ignored) provision that the minimum size of a farm is 10 hectares. *Ejidos* with less will be compensated and land re-distributed; private farmers with less will be bought out. This change, if compulsory, may be counter-productive; it will take a long time (often no-one can prove who owns what land) and meanwhile property rights will be even less secure.
- It may let *ejidos* rent out their land legally, to both *ejidos* and non-*ejidos*. Many already do this, especially in the north. But many do not because of the legal prohibition, and this prevents the most efficient farmers expanding their lots.
- It may let the *ejidos* sell their land to other *ejidos*; again this would let the most efficient expand, and increase the average size of lots.
- It may encourage, and clarify legally, co-investment projects between *ejidos* and agro-businesses. So far there have been 68 pilot projects, and they appear to have been a success. This will be a particular boost to livestock farmers.
- It may make it much more difficult for Mexicans to claim land under the agrarian reform law – and thus make private farmers' property rights more secure. The government could make applicants wait a year before submitting their claim, or only consider those who have worked on a farm.
- It may let the maximum amount of land a farmer can own vary according to the nature of the land, rather than the use to which it is put. Farmers sometimes raise cattle on land when it would be more efficient to produce crops on it, simply to avoid expropriation.

Most of these reforms, if carefully drafted, could be imposed without amending Mexico's constitution. But none of them would be ideal; farms would probably be too small, and property rights still too insecure, and, crucially, most *ejidos* still would not be able to attract capital from the private sector.

If the government truly wants to reform Mexico's agricultural system, it will have to go one step further. *Ejidos* should be given the right (but not the obligation) to buy their own land. The limit on the size of a farm should be abolished, or at least raised.

And perhaps most controversially, the commitment to agrarian reform, enshrined in the constitution and part of revolutionary folklore, should be overturned. That, however, seems about as likely as the European Community making 75 per cent cuts in its farm subsidies.

Damian Fraser

Profile: TELMEX

Potential for growth

AS THE Mexican privatisation programme enters its final phase – the administration hopes to complete it by the end of 1991 – it can feel most confident about the prospects for disposing satisfactorily of its 56 per cent majority holding in Telefonos de Mexico (Telmex) at an optimum price, depending on the stock market.

While there may be difficulties with some of the banks and the steel companies, Telmex's performance both in terms of the corporation's share price and profitability have shown it to be desirable.

Paradoxically, it has enormous potential for expansion precisely because of the under-development of Mexico's telecommunications. Sale by the scheduled December 20 date seems virtually certain but the fall in the stock price – although it has held up well in relation to the index of Bolsa Mexican de Valores (BMV) means that it will probably receive very much less than it hoped to earlier in the year.

Despite the Gulf crisis Telmex stock has continued to be something of a star, recording a 77 per cent rise in the year to September 1990. That reflected profits of 2,660bn pesos ($773m) during the year, an increase of 75 per cent in real terms over the same period of 1989 despite greatly increased investment.

Improved profitability has been achieved despite a 40 per cent cut in international telephone charges, reducing their share of total revenue from 41 per cent in the first eight months of 1989 to 21 per cent in the same period of this year.

At the same time, an increase of 36 per cent in inter-state national calls raised income from this source marginally from 35 to 37 per cent, while the doubling of charges for local calls has increased their contribution from 21 to 32 per cent of the total.

Previously, the government burdened Telmex with a levy averaging 35 per cent on sales, rather than profits, with varying rates for different services. The redeeming financial feature was – and still is – the huge contributor to profits from the payments made by counterparts abroad and especially AT&T in the US across the border, amounting to $533m in 1989.

Last year, Mexico accounted for more than 20 per cent of the US deficit in international telecommunications traffic, with far more calls coming in than going out at far greater cost.

The penalty paid was a lack of investment, especially during the 1982-88 recession, that resulted in telecommunications being one of the most backward aspects of Mexico's economy while its service was a byword for inefficiency.

Following the appointment of Mr Alfredo Baranda Garcia as director-general and a partial management shake-up, Telmex has shown a new dynamism shown in greatly improved service. The controlling group winning the concession will have to commit itself to a major development programme but in advance of the sale a revitalised Telmex has stepped up investment.

Investment in construction totalled 2,057bn pesos in the first eight months of this year compared with 1,321.3bn pesos in the same period of 1989.

Within a year the number of public telephone booths – a very serious deficiency – was nearly doubled to 90,000. Three thousand centres with a population of 500 or more were connected to the system and nearly 600,000 new lines were connected.

In advance of the sale, Telmex awarded a $216.6m contract for connecting 54 locations in Mexico through a fibre optic network mainly directed at links with the US, with the lion's share of the business going to AT&T. And it is in the process of purchasing from the government for about $300m its microwave system with only labour and technical problems to be resolved.

While developing value added services, Telmex has gone into competition with the eight countrywide cellular telephone concessionaires granted in February.

Award of the concessions was the first dent in Telmex's monopoly position but in six years' time the market will be open to long-distance carriers. But by then Telmex should be in a strong position to withstand competition with its basic optic fibre network in place, Mr Baranda points out.

In another important respect Telmex will leave a sound legacy in place. Two successive labour contracts, putting emphasis on job mobility and productivity, have been negotiated with the union. In the meantime, the number of employees per 1,000 miles of lines has been reduced from 10.5 to nine.

The winning bidder has been set a formidable five-year target in terms of extending the fibre optic cable network, digitalising the microwave system, installation of satellite communications stations, ensuring every population centre of 10,000 people or more is connected to the system by the year 2000 and doubling the per capital number of telephones by then.

As a result of the issue of new stock at a ratio of 1.5:1 and the splitting of Telmex's equity into voting and non-voting shares, it has been possible for a majority Mexican-owned group with minority foreign partners and state-of-the-art technology to gain control with the purchase of only 20.4 per cent of the company.

In the event, with bank privatisation competing for available assets, only four Mexican groups emerged in partnership with the 12 international companies officially named as being bidders.

Two of them led by cash-rich brokerage houses. Inverlat, the largest headed by Mr Augustin Legorreta (associated with Telefonica de Espana), and Acciones and Valores whose chief is Mr Roberto Hernandez (with Bell Canada and Nynex).

Other contenders are a group headed by the dynamic Mr Carlos Slim Helu and his very diversified Grupo Carso SA in partnership with France Telecom and South Western Bell and – something of a dark-horse outsider – a group led by Mr Javier Garza Supulveda's Gentor company.

Following the partial collapse of the market because of the Gulf crisis, Telmex's market capitalisation stood at $7.22bn, a price that would mean cost to the winners of $1.47bn and total proceeds for the government when the remainder of its shares are floated on the international market of just over $4bn.

Richard Johns

The oil corporation is the state's largest foreign exchange earner

Gulf crisis helps Pemex

THE ESCALATION of oil prices following Iraq's invasion of Kuwait has been as much a boon to Petroleos Mexicanos (Pemex), the state oil corporation, as it has been to the administration's finances and the country's economy recovery – although, in practice, the fortunes of the three are inextricably intertwined.

While enjoying the bonus of higher per barrel revenues Mexico's ability to profit from the situation is severely limited because of the shortfall of production capacity resulting from a critical lack of investment since the financial crisis of 1982. Its problems are compounded by a sharp rise in domestic consumption, leaps and bounds ahead of economic growth over the past two years – a reflection of the strength of the informal economy amounting to 10-25 per cent of gross domestic product.

With oil still the country's largest earner of foreign exchange despite a dramatically reduced dependency on it and expected to provide 27 per cent of state revenues in 1991, development of hydrocarbon reserves, together with regaining a greater measure of self-sufficiency in output of staple agricultural products, is the biggest challenge facing the government in the area of economic policy.

Pemex more than fulfilled President Salinas's commitment to supply the world market with an extra 100,000m b/d by increasing shipments from an average of 1.22m b/d in the first half and 1.21m b/d in July to 1.30m b/d in August and 1.37m b/d in September.

Close observers believed that it could only raise them to this level at the cost of serious reservoir damage leading to over-rapid depletion of proven reserves estimated at 66.4bn barrels. When exports fell last year to marginally below the established "platform" of 1.30m b/d, it was widely believed that it could ship no more because of output constraints and a galloping 11 per cent surge in 1989, a rate which dropped to 8 per cent in 1990.

One-third of revenues still go to the exchequer's coffers

Earlier this month, Mr Francisco Rochas, its director-general, told the FT that Pemex could maintain the 1.36m b/d set for 1991 for at least a year without adversely affecting optimum recovery. With dire predictions that Mexico could become a net importer of crude and products at any time from 1994 to the end of the century, there were grave doubts among close Pemex watchers whether it could do so.

"Pemex has had the hard task of functioning as an integrated oil company and as an instrument of the Government's economic policy," said Mr Rochas, chief executive of Mexico's largest and most vital economic enterprise (as well as being the 65th world largest in sales terms according to Fortune magazine).

He readily acknowledged that "investment has been lower than the levels of production we require". Mr Rochas calculated that over the last five years Pemex had paid about $80bn, more or less equivalent to the outstanding foreign debt, to the Ministry of Finance and said that one-third of revenues still go into the exchequer's coffers.

Pemex was also burdened with servicing $15-16bn foreign debt incurred in the halcyon days of the last oil price boom and the profligate borrowing of President Jose Lopez Portillo's administration, much of it – using Pemex's good name as a borrower – incurred for other purposes.

Pemex's crudely simplified, unrevealing balance sheet published in its annual report, showed that state taxes and levies accounted for 29,417.6bn pesos, or 56 per cent of total revenues of 51,311.5bn pesos ($20.84bn) with debt amortisation another 2,214.2bn pesos (4.3 per cent).

It was allowed to retain 11,049.6bn pesos of taxes, in effect money available for capital development, but was left with a net deficit of 585m pesos. During the first half of 1990 Pemex reported an operating profit of 14,500bn pesos (up 41 per cent on 1989) from revenue of 273,000bn pesos.

In the meantime, Pemex resorted to the international capital markets this year with the placement of four bond issues of 100m D-marks, 500m Austrian schillings, $100m and another of $150m.

Having benefited from the public sector debt reduction finally agreed with commercial banks early in March, Pemex had half its foreign liabilities converted into internal debt owed to the finance ministry, reducing them to about $7bn.

For Pemex the big bonus from the Gulf crisis was the government's decision that it could retain 47 per cent of the "windfall" profits over and above the $13 a barrel average conservatively estimated in the 1990 budget. That will allow it totally to defray its domestic debt which currently amounts to about 2,500bn pesos.

Pemex had its development budget increased by 11.8 per cent in real terms in the 1991 budget. Mr Rochas said – the day before its announcement when he expected a rise of 10-15 per cent – that all the increment would be devoted to exploration and development, absorbing roughly two-thirds of an appropriation the equivalent of $2.8bn.

Yet it is a matter of open debate as to whether even a massive infusion of development capital can maintain Mexico's position as significant exporter for long. For instance, Washington-based consultants Whalen Corporation said last month that "even with massive external effort Mexico will become a net importer of crude in the course of 1987" and Business International predicted that without "substantial investments" it would do so by the end of the century.

So, too, did a leaked Pemex document which may or may not have been aimed at frightening the Finance Ministry and persuading it to alleviate the heavy fiscal regime governing the corporation.

Mr Fernando Hiriart, energy minister, is confident that Mexico will remain more than self-sufficient in energy resources for an indefinite period. No one doubts the rich untapped hydro-carbon potential of the country but Pemex needs capital to exploit and develop it.

While the state oil corporation is prepared to employ foreign oil companies to explore and drill on a contractual basis, the government still rules out categorically on constitutional and political grounds "risk venture" arrangements – such as Indonesia had used – giving them the right to hydrocarbon reserves discovered in exchange, so sacrosanct is the industry nationalised in 1938.

Last year the government did, however, devise a scheme where foreign capital could play a bigger role in developing the petrochemical industry. During the economic stagnation of the last administration the industry grew at a rate of 7 per cent, increasing installed capacity by 21 per cent.

The trade deficit in basic petrochemicals is an embarrassment

For a major oil-producing country, however, Mexico's trade deficit in basic petrochemicals has been an embarrassment. In 1989 the imbalance for "basic" petrochemicals was $90m and products defined as "secondary" $306m.

In August last year the government took a step forward in encouraging foreign participation in the industry by cutting the somewhat arbitrary list of 34 "basic" products (defined as the first transformation from hydrocarbon source). In doing so, it drew up a list of 66 "secondary" petrochemicals that can be produced by the private sector with foreign participation of up to 40 per cent.

Then in February Pemex concluded two innovative deals – not offensive to political sensitivities relating to the oil industry – under which two private companies, Cydsa and Celanese Mexicana, undertook to finance completion of plants at the Morelos petrochemical complex to be repaid with the products from them – acrylonitrile and aceldehyde respectively – both classed as primary petrochemicals and thus the preserve of the state.

Pemex has been negotiating a similar arrangement for the construction of a major aromatics plant with Mitsui of Japan and Spie Batignolles of France. Generally, however, although there have been intensive discussions with international companies, the response has so far been disappointing.

Richard Johns

Richard Johns on the significance of 'maquila'

The US connection

ONLY a passing reference to *maquila*, or in-bond, industry was made by President Carlos Salinas in his State of the Nation address on November 1.

Minimal acknowledgment of an area of economic activity likely to achieve a growth rate of up to five times that of gross domestic product as a whole in 1990 and the second largest earner of foreign exchange after the oil industry raised some eyebrows, though surprisingly little comment.

It was about the only redeeming economic feature of the six years of stagnation during the previous administration. Flourishing more than ever, though now threatened by labour disruption, *maquila* has become one of the vital source of foreign exchange as the country's trade and current accounts deficit yawns wider.

In the first five months of this year the industry – almost a sector in its own right – grew by 19.3 per cent compared with same period of last year, according to figures recently issued by the official National Institute of Geography and Statistic (Inegi). By the end of May total employment had reached 465,783, according to Inegi.

It did not say what foreign exchange receipts in added value earnings were but Banco de Mexico figures for the first half of 1990 put them at US$1.72bn, up 19 per cent over the same period of 1989. Early this month the Ministry of Commerce and Industry (Secofi) projected added-value foreign exchange earnings of $3.5bn and 8 per cent of current account receipts projected for the year.

Perhaps the reason for Mr Salinas's cursory recognition of the contribution of the *maquiladoras* to economic recovery was that in the time available he had no reason to dwell on the continuing success story of this unique sector – which also happens to rely on foreign products and, to a large extent, enterprise. Impending negotiations with the US and Canada on a free trade agreement could have been another factor.

Mr Salinas's administration has given extra stimulus to *maquiladoras*. Late last year the Secofi issued a decree allowing them to sell 50 per cent of their total output in the local market and exempted Mexican goods sold to plants as inputs from value-added tax. In February a package of fiscal incentives was granted, including a cut in corporation tax.

Negotiations with the US and Canada on free trade

The minuscule proportion of nationally produced goods supplied to the in-bond industry, currently only 1.7 per cent, remains a subject of concern and some shame to the business community.

Having begun modestly in 1975, under the protectionist, nationalising regime of President Luis Echeverria, the industry was the only one to expand during the six-year period of stagnation which marked Mr Miguel de la Madrid's administration.

In about 40 per cent of the plants – now approaching 2,000 in number (there were 1,924 at the end of May) – Mexicans have majority stakes. US companies' shareholdings in these make it the overwhelmingly predominant force in the business in terms of overall investment – with General Motors under the guise of a number of different names reckoned to be the main single force.

That is hardly surprising because *maquiladoras* exist to serve the US market. It explains why 87.2 per cent of plants are in the border states (40 per cent in Baja California) despite efforts to decentralise the industry to other regions including the Yucatan Peninsula which is well placed to serve the US Gulf coast and eastern seaboard.

The Japanese presence is concentrated in Tijuana, mainly in the electronics industry. It is relatively small in terms of plants with some 60 plants employing about 21,000 workers but believed to be disproportionately large in terms of added value.

Questions inevitably, however, have been raised about the future of the in-bond industry – in the face of the antagonism of the AFL-CIO and many business sectors – within the context of the forthcoming US-Mexican negotiations on a free trade agreement (FTA).

The future of an industry based on tax-exempt entry of components and materials into Mexico for transformation by cheaper labour into finished products and then exported is bound to be discussed when the bargaining over a phased-reduction of tariffs begins – to the extent that there has been talk of Mexico being totally *"maquiladorarised"*.

In the last resort, however, that would be one essential aspects of an FTA – the eventual elimination of tariffs across the board would inevitably attract more capital from the US to benefit from cheaper labour, although with greater presumed prosperity for Mexico the comparative advantage would gradually lessen.

Opposition north of the border to the Japanese "yellow peril" and the threat of "Asian tigers" lurking south of the border using *maquiladoras* as a means of enjoying the "most favoured nation treatment" and backdoor entry to the US market is likely to be a bigger issue impinging on the talks.

Even before it was revealed that the two administrations were planning FTA negotiations, anti-dumping moves were afoot, including protests against TV tubes produced by Japanese and other Asian manufacturers in Mexico.

As it is, Mr Alejandro Bustamente, outgoing president of the National Maquiladora Association, has openly expressed concern about the implications for the industry. In the meantime the other obvious worry, inevitably, is the state of the US economy.

Why 87.2 per cent of the plants are in the border states

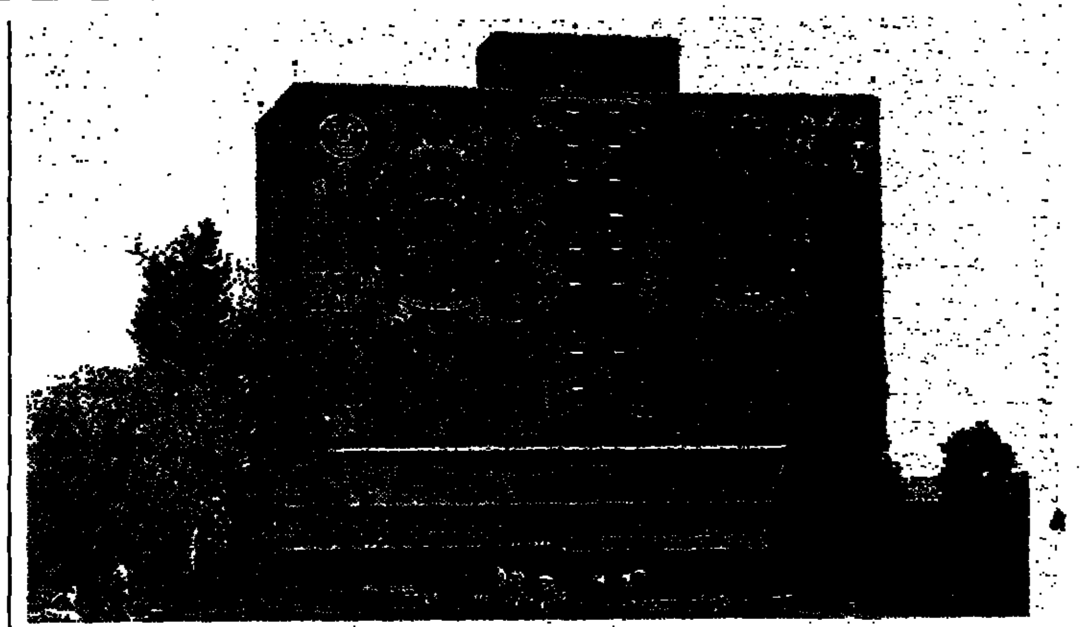
Development of the industry faces other, more immediate obstacles. Earlier this month at the National Maquiladora Convention, Mr Fernando Sanchez Ugarte, under-secretary at Secofi, pointed to the infrastructure bottlenecks.

"Several border cities are now showing acute problems in basic services such as transportation, water and sewage," he said. Another problem is lack of housing.

Job mobility has also caused management headaches, forcing up wages and the granting of fringe benefits but with a slowdown of expansion in the second half of this year, that problem has eased.

Of potentially much more seriousness has been the increasing militancy and conflict in an industry which is now 50 per cent unionised, especially in Matamoros in Tamaulipas. Labour unrest, strikes and a revolt by dissidents against the Confederation of Mexican Workers – ever-loyal to the government and co-operative with management – at local and national level led to a crisis in the late summer which simmers on and has not been properly resolved.

One of the attractions for investors in the industry from the beginning was a cheap but amenable labour force because the workers enjoyed compensation far higher than they could obtain elsewhere. The Matamoros confrontation and conflicts elsewhere have made it clear that their passivity can no longer be assured.



Mexico City University

TOURISM

Empty hotel rooms

"YOU STAY with me, Mexico," sings the mellow voice of Linda Ronstadt as the images of Mayan pyramids of the Yucatan Peninsula, and colonial plazas flow across the television screen. The elegant new advertisements produced by the New York branch of Saatchi & Saatchi are part of Mexico's strategy to change the country's image with tourists by placing less importance on beach resorts and more on history and archaeology.

In 1989, 6.3m tourists visited Mexico, and Sector, the tourism secretariat, expects the 1990 figure to hit 6.6m. The $3bn industry rivals the oil and *maquiladora* industries as Mexico's main hard currency earner. But in spite of attracting foreign investment and a debt-for-equity swaps programme, hotel occupancy is still low, a sign that growth may be outstripping demand.

"Tourism in Acapulco has been bad for a long time," says Miss Mary Ellen Sanger, who represents a US-based tour wholesaler there. "But this was the slowest summer in many years." Once the jewel of Mexican resorts, Acapulco has now earned a reputation for poor service, grimy littered beaches and swarms of street vendors.

Sector figures show that only 52 per cent of Acapulco's rooms were filled during 1989 and early 1990. The head of the Mexican Businessmen's Council reported in May that foreign tourism was down 25 per cent in the first quarter of 1990, costing the resort about $100m. The president of Guerrero's Tourism Protection Agency said recently that only 4,000 of the state's planned 16,000 hotel rooms had been built. Acapulco, Ixtapa and other Pacific coast resorts as Manzanillo and Mazatlan all had a bad year, and though targeted for development, the Baja California destination of Loreto filled only a quarter of its rooms.

On the other hand, there is Cancun. With an occupancy rate of about 68 per cent, Mexico's most successful resort in the Caribbean has grown so outrageously that Fonatur, the National Trust for Tourism Development, has tried to cap the boom. The population of the city increased 26 per cent last year, leaving basic infrastructure far behind. In September Fonatur abandoned its plan to bring the number of hotel rooms up to 75,000 by 1993, deciding that demand could fill only the 18,000 already available.

"Yes, we're concerned about low occupancy rates," says Mr Steve Sonnabend of Boston-based Sonesta Hotels, who visited Mexico City as part of the Joint Committee on Commercial Investment. "But the government wants to rectify that." Tourism accounted for about 30 per cent of the total foreign investment dollars lured to Mexico by June 1990 – an amount Mr Pedro Joaquin Coldwell, Sector head, sets at $1.7bn. That percentage is down 9 per cent from 1988, with the US still Mexico's top tourism investor. At November's joint committee meeting, Mr Sonnabend and 11 other possible US investors interested in taking advantage of Mexico's new foreign investment laws looked at five self-contained projects, which upon completion would add almost 21,000 hotel rooms to those already available.

Because of the emphasis Mr Salinas placed on tourism when he took office in late 1988, his presidential term has been dubbed the tourism *sexenio*. It was expected that Mr Carlos Hank Gonzalez as tourism secretary would give tourism the push it needed to bring the number of visitors up to 10m by 1994. But Mr Hank was moved to the Agriculture Secretariat in January 1990 and replaced by Mr Coldwell, a former Fonatur chief. With $40m already spent to promote tourism outside Mexico, attracting visitors is still a priority.

Thus the $10m "Mexico – the Magic Never Leaves You" ad campaign, launched in October. "We need to show people that Mexico is more than just beach resorts," says Miss Margarita Wynne, Sector's director of advertising and public relations.

Promotion is coming from mixed fund programmes that combine private, state and federal money. According to Miss Wynne: "The government can't do everything. This way, resorts can afford to advertise themselves." And there are Spanish-language versions for the North American Latin population, now about 20m strong.

The US supplies Mexico with at least 80 per cent of its visitors, but a recession would cause the proportion to fall. Mr Jeronimo Ramos, director of tourism policy, worries that the situation in the Persian Gulf may keep North Americans at home.

"We're not officially in a recession," claims Mr Rockwell Schnabel, US under-secretary of commerce for tourism, on a recent visit to Mexico City. "But if people think we are in one, they'll just travel to Mexico instead of Europe."

But empty hotel rooms or not, tourism has proved a prime target for debt swaps. In October, the finance secretariat decided to cash in full $2.6bn in remaining swaps authorised under Mexico's debt-for-equity programme over a three-year period as originally planned.

One of the biggest criticisms of July's swaps auction was that there was too much interest in tourism and too little in agriculture and infrastructure projects. Tourism swaps did not include hotel construction for the most part, but did cover marinas, golf courses, telephone service, water projects and electricity generation installations. Critics felt that the swaps should be used for less sexy but more urgent agriculture programmes.

Many investors teeter on the edge, unsure whether to plunge their money into tourism. "They're not addressing the problems that need to be worked out," says an industry analyst. "Service, cleanliness, transportation, infrastructure, these are some aspects Mexico has to work on if it wants to fill all those empty hotel rooms."

But the lavish ads campaign and increased promotional budget count for a lot with some investors. Says Atlanta architect Helen Hatch, whose firm of Cooper Carry & Associates specialises in resort development: "Tourism and infrastructure are priorities. The government's commitment makes Mexico look good."

Candace Siegle

هكذا من الاصل

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AUTHORISED UNIT TRUSTS

Mattheson Unit Trust Managers Ltd (1200)H
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex
Enquiries: 0277 227300 Dealing: 0277 261010

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
SE Asia	6	39.62	39.62	42.37	2.69	40998
UK Growth (4-2)	6	58.72	58.72	62.80	3.93	46355
UK High Income	6	30.81	30.81	32.95	6.13	46356

Mayflower Management Co Ltd (1200)F
PO Box 249, Beckenham, Kent BR3 4WA 081-663 3111

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Income	5	304.9	304.9	324.4	6.53	40913
Global Inc	5	42.22	42.22	44.91	5.37	40916
Brit. Leaders	5	242.0	242.0	257.4	4.26	40914
Intl Leaders	5	121.7	121.7	129.5	3.16	40915

Medical Investments Ltd (1100)F
1 White Hart Yard, London SE1 1NX 071-407 5966

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Health Fund	5½	43.96	43.96	48.11	1.34	40917

Mercury Fund Managers Ltd (1000)H
33 King William St, EC4R 9AS 071-280 2060

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American Growth	5	–	102.3xd	109.2	0.68	40918
(Accum Units)	5	108.8	109.2xd	116.5	0.68	40919
American Income	5	30.77	30.77	32.73	0.13	40920
(Accum Units)	5	41.01	41.01	43.63	0.13	40921
American Sm Cos	5	37.70	37.70xd	40.22	0.00	40922
(Accum Units)	5	38.21	38.21xd	40.76	0.00	40923
British Blue Chip	5	52.49	52.63xd	56.14	3.15	40924
(Accum Units)	5	57.83	57.99xd	61.86	3.15	40925
Cash*	0	102.0	102.1	102.1	14.30	46004
(Accum Units)*	0	107.4	107.5	107.5	14.30	46003
European Growth	5	148.4	148.4	157.7	1.49	40926
(Accum Units)	5	157.5	157.5	167.4	1.49	40927
European Income	5	61.67	61.67	65.52	4.98	40928
(Accum Units)	5	71.92	71.92	76.41	4.98	40929

National Provident Inv Mgrs Ltd (1400)H
48 Gracechurch St, EC3P 3HH 071-623 4200

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
NPI American Acc ♥	5	56.49	56.59	59.14	1.73	41103
NPI American Dist ♥	5	52.21	52.30	55.64	1.73	46660
NPI European Acc	5	63.45	64.06	68.15	0.74	41104
NPI European Dist	5	62.46	63.06xd	67.09	0.74	46661
NPI Far East Acc ♥	5	92.68	92.89	98.81	0.36	41105
NPI Far East Dist ♥	5	92.02	92.21	98.10	0.36	46662
NPI O'seas Acc	5	743.9	747.8	795.5	1.51	41107
NPI O'seas Dist	5	581.7	584.7	622.0	1.51	41106
NPI UK Acc	5	417.0	420.6	447.4	5.07	41109
NPI UK Dist	5	231.7	233.7xd	248.6	5.07	41108
NPI W'wide Acc	5	58.84	59.82	63.64	0.58	41110
NPI W'wide Dist	5	56.61	57.55xd	61.22	0.58	46663

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING. The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

FT MANAGED FUNDS SERVICE

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Target Trust Mngrs Ltd (1600)F
Target Hse, Gatehouse Rd, Aylesbury, Bucks.
Admin. 0296 394000 Dealing 0296 312156

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American Eagle	5	57.46	57.46	61.37	1.25	41482
Australia	5	5.280	5.280	5.652	4.72	41483
Equity	5	144.2	144.2	154.7	4.97	41486
Euro Spec Sits	5	96.42	96.42	103.7	0.67	41487
Financial	5	25.43	25.60	27.54	5.42	41488
Global Opps Inc	5	56.72	56.72xd	60.94	0.00	41489
Global Opps Acc	5	57.95	57.95	62.26	0.00	41490
Gold & Gen Inc	5	33.68	33.68xd	36.24	1.10	41491
Gold & Gen Acc	5	62.95	62.95	67.75	1.10	41492
Income	5	88.65	88.65	95.23	6.72	41493
Japan & General	5	110.3	110.3	118.7	0.00	41496
Preference Share	5	17.98	17.98xd	19.31	13.74	41497
UK Capital	5	78.77	78.77	84.61	4.13	41500
World Income	5	53.95	53.95xd	58.00	6.09	41501
Worldwide Capital	5	147.6	147.6	158.5	3.44	41502

Templeton Unit Trust Managers Ltd (1200)F
Atholl Crescent, Edinburgh EH3 8HA 031 228 3932

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Global Growth Acc	6	90.68	91.39	97.74	3.87	46671
Global Growth Inc	6	87.13	87.80	93.91	3.87	46672
Global Balanced Acc	6	92.99	93.46	99.96	4.79	46669
Global Balanced Inc	6	86.63	87.07	93.12	4.79	46670
Value Tst Acc	6½	68.48	69.52	74.35	4.54	42642
Value Tst Inc	6½	66.77	67.78	72.49	4.54	46990
Intl Pro & Ch'ties Inc ♥	2	85.68	86.97	91.30	3.97	46989
Intl Pro & Ch'ties Acc ♥	2	82.68	83.92	88.10	3.97	41505

Thornhill Unit Trust Managers Ltd (1200)F
28 St John's Sq, London EC1M 4AE 071-251 6767

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Capital	5	47.08	47.27	50.28	-	47874
Overseas	5	39.44	39.63	42.15	-	43776
(Accum Units)	5	-	-	-	-	-

Thornton Unit Managers Ltd (1000)F
33 Cavendish Sq, London W1M 0DH 071-493 7262
Dealing 071-493 8545

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American Opps	5	40.80	40.80	43.51	0.26	41506
(Accum Units)	5	41.99	41.99	44.78	0.26	41507
Cash	0	51.16	51.16	51.16	14.00	45247
Accum Units	0	51.16	51.16	51.16	14.00	45248
European Opps #	5	55.54	55.54xd	59.14	0.00	41508
(Accum Units) #	5	55.84	55.84xd	59.46	0.00	46366
Far Eastern Opps	5	97.79	97.81	104.32	0.00	41509
(Accum Units)	5	98.42	98.44	104.99	0.00	41510
Golden Opps	5	25.05	25.05	26.60	0.00	41511
(Accum Units)	5	25.77	25.77	27.36	0.00	46367
Intl Hi-Yield	5	47.37	47.37	50.45	5.46	41512
(Accum Units)	5	51.64	51.64	54.99	5.46	46368
Sanyo Japan Tst	5	56.95	56.95	60.71	0.00	41513
(Accum Units)	5	56.95	56.95	60.71	0.00	41514
Kangaroo	5	22.82	22.82	24.23	1.72	41515
(Accum Units)	5	23.83	23.83	25.30	1.72	46369
Little Dragons	5	33.74	33.74	35.98	0.00	43157
(Accum Units)	5	33.74	33.74	35.98	0.00	43158
Oriental Income	5	27.57	27.60	29.42	5.94	41516
(Accum Units)	5	32.27	32.30	34.44	5.94	41517
Tiger	5	109.29	109.29	116.57	0.95	41520
(Accum Units)	5	111.38	111.38	118.79	0.95	41521
UK Hi-Yield	5	34.78	34.78xd	37.09	6.16	41522
(Accum Units)	5	41.18	41.18xd	43.91	6.16	46302
UK Smllr Cos	5	41.90	42.53	45.49	0.93	41523
(Accum Units)	5	45.66	46.34	49.56	0.93	41524

Three Counties Asset Mngmt Ltd (1430)F
Cuthbert House, Tower Road, Washington NE37 2SH 091 415 3034

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Balanced Portfolio	6	86.51	88.26	93.56	6.20	47462
Cash Deposits ♥		103.48	103.48	103.48	14.00	44070

Timberlake Trust Mngrs Ltd (0900)F
1 White Hart Yard, London SE1 1NX 071-407 5966

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Portfolio	2	87.37	88.41	90.22	12.96	42679

Touche Remnant Unit Tst Mngt Ltd (1600)F

Murray Johnstone UT Mngmt
Murray Exempt Funds

	Bid Price	Offer Price	Yield Gross	City-line
Amer Expt Nov 13	37.4	38.8	2.73	41064
Euro Expt Nov 13	46.9	49.2	2.56	41065
Fixed Int Ex Nov 13	44.5	45.7	10.42	46594
Japan Expt Nov 13	39.1	40.8	0.72	41066
Managed Ex Nov 14	37.4	38.8xd	4.92	41067
SE Asia Expt Nov 13	54.7	57.4xd	4.17	41068
Sm Cos Expt Nov 13	27.8	29.1xd	5.63	41069
UK Eqty Ex Nov 13	35.7	37.4	4.10	41070

Phillips & Drew Fund Management Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Small Co's Nov 6	589.8	632.3xd	5.89	41138
Do Accum	656.0	703.2	5.89	41139
Int Exmt Nov 21	143.5	145.7	3.49	41140
UK Index Nov 6	960.6	982.0	6.06	46945
Do Accum	1016	1037	6.06	46946
Convertible Nov 16	78.09	80.66	9.74	46938
World ex UK Index Nov 19	636.60	645.20	2.15	47887
Do Accum	642.86	651.55	2.15	47888
Japan Index Nov 19	512.40	519.90	0.55	47881
Do Accum	513.40	520.80	0.55	47882
USA Index Nov 19	733.1	737.90	3.53	47885
Do Accum	743.4	748.1	3.53	47886
Europe ex UK Index Nov 19	791.50	811.0	3.14	47879
Do Accum	803.80	823.90	3.14	47880
Pacific ex Jap Index Nov 19	715.00	735.40	5.44	47883
Do Accum	728.5	749.2	5.44	47884
Managed Exempt Nov 21	90.06	91.71	5.9	40338
American Exempt Nov 21	97.31	98.91	4.56	40574
European Exempt Nov 21	101.7	103.1	3.73	40628
Japan Exempt Nov 21	99.37	100.6	0.36	40635
Pacific Basin Nov 21	96.66	98.96	4.91	40636

NM Rothschild Asset Management Ltd

	Bid Price	Offer Price	Yield Gross	City-line
NC Managed	52.9	56.3xd	4.31	40339
NC Property	174.3	191.2	-	41205

J. Rothschild Fund Managers Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Intl Exempt Accum	118.3	119.2xd	4.21	44085

Stewart Ivory & Co Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Saints PPP Oct 12	224.9	236.81	-	41422

Closed to new business

Thornton Unit Managers Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Managed Exempt Nov 1	81.58	85.68xd	4.83	46975
(Accum Units)	83.81	88.05xd	4.83	46976

Touche Remnant Unit Tst Mngt Ltd

	Bid Price	Offer Price	Yield Gross	City-line
TR Exempt European	894	906	2.96	47801
TR Exempt Nth Amer	703	728	4.84	47802
TR Exempt Pac Basin	656	665	1.90	47803
TR Exempt Smlr Cos Inc	996	1018	2.30	43737
TR Exempt Smlr Cos Acc	996	1018	2.30	43752

INSURANCES

AA Friendly Society
(Investment Mngt M & G Inv Mngt Ltd)

	Bid Price	Offer Price	Yield Gross	City-line
AA Friendly Sy Nov 9	-	160.5	-	41607

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

	Bid Price	Offer Price	Yield Gross	City-line
Prop. Ser. 1	270.7	285.0	-	41608
Equity Ser. 1	113.8	119.8	-	41609
Prop. Acc. Ser 2	440.2	463.4	-	41610
Equity Ser 2	135.8	143.0	-	41611
Selective Acc	332.3	349.8	-	41612

American Life Insurance Co UK
2-8 Altyre Road, Croydon CR9 2LA 081-680 6000
Life Funds (Accumulation Units)

	Bid Price	Offer Price	Yield Gross	City-line
Premier Managed(z)	137.1	144.4	-	41769
Alpha Managed(z)	86.2	90.8	-	41759
HICA Managed(z)	84.6	88.9	-	41767
Pension Funds (Accumulation Units)				
Premier Managed(z)	164.2	172.9	-	41770
Alpha Managed(z)	93.9	98.9	-	41768

Avon Insurance Plc
Tiddington Rd, Stratford-upon-Avon CV37 0789 204211

	Bid Price	Offer Price	Yield Gross	City-line
Bonus Fund	70.00	71.45	-	41772

Barclays Life Assur. Co Ltd
252 Romford Road, London E7 081-534 5544

	Bid Price	Offer Price	Yield Gross	City-line
Barclaybond	406.7	428.2	-	41773
Managed Accum	340.6	358.6	-	41774
Equity Accum	534.7	562.9	-	41775
Property Accum.	289.1	304.4	-	41776
International Accum	236.6	249.1	-	41777
Gilt-edged Accum	249.5	262.7	-	41778
Money Accum.	233.3	245.6	-	41779
American Accum	139.4	146.8	-	41780
Australia Accum	119.6	125.9	-	41781
Financial Accum	213.4	224.7	-	41782
"500" Accum	266.6	280.7	-	41783
European Grwth Accum.	165.5	174.3	-	41784
Income Accum	328.1	345.4	-	41785
Japan & Gen Accum.	281.6	296.5	-	41786
Leisure Accum	170.1	179.1	-	41787
Spec Sits Fd Accum	130.7	137.6	-	41788
Universal Tec Accum.	88.5	93.2	-	41789
Smaller Co's Accum	87.7	92.4	-	41790
Do Initial	79.3	83.5	-	41791
Managed Pns Accum	518.5	545.8	-	41792
Equity Pns Accum	218.7	230.3	-	41793
Intnl Pns Accum	126.5	133.2	-	41794
Gilt-edged Pns Accum.	401.0	422.2	-	41795
Money Pns Accum	395.8	416.7	-	41796
Property Pns Accum.	172.8	181.9	-	41797

Clerical Medical/Fidelity Investments – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Cash	148.8	156.7	-	41957
North American	102.6	108.0	-	41958
Far East	169.6	178.6	-	41959
International	130.5	137.4	-	41960
Special Situations	188.6	198.8	-	41961
International Income	184.7	194.5	-	41962
American Income	98.4	103.6	-	41963
European	206.9	217.8	-	41964
South East Asia Fund	148.3	156.2	-	41965
Japan Fund	104.5	110.1	-	41966
Evergreen	77.1	81.2	-	46005
Homeinvestor W-P Reg.	118.6	124.8	-	46305
Homeinvestor W-P Spec.	118.6	124.8	-	46306
Flexible Retirement Plan				
Mixed	185.8	195.6	-	41967
Equity	218.0	229.5	-	41968
Property	163.2	171.8	-	41969
Gilt & Fixed Interest	156.0	163.2	-	41970
Indexed Linked	136.1	143.3	-	41971
Cash	183.4	193.1	-	41972
North American	119.0	125.3	-	41973
Far East	189.4	199.4	-	41974
International	157.4	165.7	-	41975
Special Situations	242.0	254.8	-	41976
European	258.6	272.3	-	41977
Executive Investment Pension Plan				
Prices on November 21. Unit dealings on Wednesday.				
Cash Fd.	223.3	235.1	-	41978
Mixed Fd	255.6	269.1	-	41979
Fixed Int. Fd	193.9	204.2	-	41980
UK Equity Fd.	336.6	354.4	-	41981
Property Fd.	191.9	202.1	-	41982
Overseas Fd.	165.1	173.8	-	41983
Index Linked Fd.	146.5	154.3	-	41984
Stock Ex Fd	209.1	220.2	-	41985
North Am Fd	123.3	129.8	-	41986
Far East Fd.	196.7	207.1	-	41987
Special Sits Fd.	235.8	248.3	-	41988
Europ. Fd.	260.7	274.5	-	41989

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FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	Yield Gross	City-line
Managed	305.9	322.1	–	43163
UK Equity	385.8	406.2	–	43164
Overseas Eq.	285.6	300.7	–	43165
American	206.7	217.6	–	43166
Far East	298.6	314.4	–	43167
Property	193.1	203.3	–	43168
Fixed Int.	238.1	250.7	–	43169
Indexed Gilt	149.4	157.3	–	43170
Deposit	172.7	181.8	–	43171
Pension Fund (Accum Units)				
Managed	423.7	446.0	–	43173
UK Equity	493.6	519.6	–	43175
Overseas Eq.	467.8	492.5	–	43177
American	272.4	286.8	–	43179
Far East	497.1	523.3	–	43181
Property	240.1	252.8	–	43183
Fixed Int.	289.2	304.5	–	43185
Indexed Gilt	164.3	173.0	–	43187
Deposit	237.8	250.4	–	43189
NPI Pensions Management Ltd				
Managed Fund	928.8	945.4	–	43190

Prices Nov 1 Next dealing Dec 3

Norwich Union Asset Management Ltd
PO Box 140, Norwich NR3 1PP 0603 686787

	Bid Price	Offer Price	Yield Gross	City-line
NUAM Funds				
Managed Fund	62.1	66.3	–	43191
Stock Market Mngd Fund	58.2	61.3	–	43192
Equity Fund	67.2	70.8	–	43193
International Fund	50.5	53.1	–	43194
European Fund	61.1	64.5	–	43195
North American Fund	47.9	50.4	–	43196
Pacific Fund	50.4	53.1	–	43197
Property Fund	86.8	91.4	–	43198
Fixed Interest Fund	53.9	56.8	–	43199
Index Linked Sec Fund	60.6	63.8	–	43200
Deposit Fund	66.3	69.8	–	43201
NUAM Retirement Plans				

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Total Investment Bond				
UK Equity Initial	134.1		–	43429
UK Fixed Int Initial	110.6		–	43430
Intl Equities Initial	102.4		–	43431
UK Managed Initial	107.0		–	43432
Property Initial	164.6		–	43433
Money Initial	84.6		–	43434
Special Market Initial	94.1		–	43435
Japan Equity Initial	71.6		–	46762
North American Initial	61.9		–	43437
Pacific Initial	58.3		–	43438
Technology Initial	80.0		–	43439
Nat. Resources Initial	40.7		–	43440
European Initial	82.6		–	43442
Residential Prop Init	93.7		–	43443
Swiss Equities Initial	29.7		–	43444
Hong Kong Initial	43.6		–	43445
UK High Inc Eq Init	60.3		–	43446
Int. Fixed Interest Init	50.5		–	46408
Int. Managed Init	49.4		–	46409
HIP Managed Init	95.8		–	46752
HIP Managed II Initial	86.1		–	41927
Broker Funds				
High Performance	61.4	64.7	–	43448
Towerhill Mngd Fd Acc	35.3	37.2	–	43447
YRA Executive Fd.	82.4	86.9	–	43449
£ Global Growth Acc	110.5	116.5	–	47160
£ High Income Money Acc	133.2	140.5	–	47161
IM Balanced	46.7		–	47162
H.F. Speculator Fd	113.0		–	43451
PEP Acorn II	103.4		–	46486
PEP Cautionary	67.0		–	47163
AAPS Int. Man Fund	109.3		–	46551
Andrews Green Inv Port	75.8		–	47914
Individual Pension Funds				
UK Equity Acc	211.9	225.6	–	43454
UK Fixed Interest Acc	201.1	212.2	–	43455

Sun Alliance International Life
PO Box 77, New St, St Peter Port, Guernsey 0481 714108

	Bid Price	Offer Price	Yield Gross	City-line
North American Equity $	$7.85	8.45	–	45824
Pacific Equity $	$7.34	7.90	–	45825
Intl Currency $	$4.26	4.59	–	45826
Intl Bond Fund $	$7.02	7.56	–	45827
Gilt Fund £	£4.05	4.37	–	45828
US Dollar Mngd Fd $	$1.59	1.71	–	45829
Stlg Managed Fd £	£1.00	1.07	–	46829

Target International Group
1 rue Emile Bian, Luxembourg Tlx 2809 Tel 4050751

	Bid Price	Offer Price	Yield Gross	City-line
Sterling Pens Plan	£0.69	0.74	–	45907
US Dollar Pens Plan	$0.70	0.76	–	45908
Yen Pens Plan	Y229	245	–	45909
Ecu Pens Plan	Ecu0.61	0.66	–	45910
Sterling Man Fd	£0.95	1.01	–	45911
Sterling Fixed Int Fd	£1.56	1.65	–	45912
US Dollar Man Fd	$1.17	1.23	–	45913
US Dollar Fixed Int Fd	$1.41	1.49	–	45914
Ecu Bond Fd	Ecu1.07	1.13	–	45915
Davenport Chdwck £ Fd	£0.77	0.84	–	45916
Davenport Chdwck $ Fd	$0.48	0.52	–	45917
Davenport Chad £ F I	£1.07	1.16	–	45918
LWI Universal Stg Mngd	£0.77	0.79	–	45919
LWI Universal $ Mngd	$0.63	0.66	–	45920
Matheson £ Pens	£0.75	0.80	–	45921
Matheson $ Pens	$0.80	0.85	–	45922
EDN MIM £	£0.85	0.91	–	47412
EDN MIM $	$0.94	1.02	–	47413
Royal Wessex Fund	£0.71	0.743	–	45924
Wessex Special Sits	£0.99	1.039	–	46348
Proinco $ Managed	$0.93	0.970	–	45925
Proinco £ Managed	£0.98	1.024	–	47957
Argent Stg Blncd	£10.39		–	46311
Argent Stg Eqty Gth	£11.08		–	46312
GFS/James Capel Man Gr £	£1.00		–	46809

J. D. Ward Financial Services Ltd
9 Kingsway, London, WC2 B6XF 01-836 4372

	Bid Price	Offer Price	Yield Gross	City-line
Target Mngd Bond	185.7	195.5	–	44591
Target Mngd Pension	112.8	118.8	–	44592
Albany Life Acc	166.3	175.0	–	41721
Albany Pens Acc	206.1	216.9	–	41722

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Orion Fund Limited						
6 Front St., Hamilton, HM11 Bermuda 809 295 4000						
Orion		$–	9.8538			–40409

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

	Bid Price	Offer Price	Yield Grss	City-line
Baring Int Fund Managers Guernsey Ltd				
Mngd Portfolio (Dlr)	$9.78	10.40	-	47318
Mngd Portfolio (Stlg)	£3.58	3.84	-	47319
Baring Currency Fund Ltd				
US Dollar	$14.59		-	44754
Sterling	£17.85		-	44755
Deutschemark	DM38.13		-	44756
Japanese Yen	Y3,808		-	44757
Managed	$42.54	44.66	-	44758
Dantrust Management (Guernsey) Ltd				
Dantrust Limited	DKr117.0	117.2	-	44873
Fipart-Conseil Fund Mngrs (Guernsey) Ltd				
Hauteville G & B Fd	SFr7.80	7.85	2.30	46845
John Govett Mngmnt International Ltd				
Govett High Inc Gilt	£0.3571	0.3804	12.88	45140
Govett Far East Inv	$0.899	0.961	-	45141
Energy & Resources	$0.661	0.706	-	45142
Hambros Fund Managers (CI) Ltd				
Japanese OTC	$8.7617	9.3230	-	43785
Havelet Throgmorton Mngmt Ltd				
Intl Inv-Stlg High Inc	£9.985	10.538	10.09	47649
Intl Inv-Intl High Inc	$49.160	51.759	5.54	47648
Henderson Admin. (Guernsey)				
Prior Bn Portfolio (shs)	£0.908	-	-	45225
Balanced Grth $ Prtflo	$1.805	1.949	-	45226
Balanced Grth £ Prtflo	£1.046	1.123	-	45227
Select Mkts $ Prtflo	$1.838	1.997	-	45228
Inc & Grwth $ Prtflo	$1.690	1.789	-	45229
High Income £ Prtflo	£0.599	0.629	-	45230
Hill Samuel Fd. Mngrs. (Guernsey) Ltd				
Guernsey Tst	165.76	70.33	2.85	45254
Kleinwort Benson Intl Fd Mngrs Ltd				
KB Int.Ac Bd Acc*	£8.688	9.149	-	45356
KB Japan Fund	$210.49		-	45357
*Offer price inclusive of maximum preliminary charge				
Kleinwort Benson Islamic Fd Mgmt Ltd				
Islamic Fund	$5.70	6.10	0.43	45366
Lazard Fund Managers (CI) Ltd				
Lazard Cap Grth Bond	$2863.11	3023.56	7.8	45385
Lazard Cur Acc Fd £	£18.78	18.79	13.5	45367
Lazard Cur Acc Fd US$	$14.68	14.69	6.9	45368
Lazard Cur Acc Fd Y	Y3,830	3,830	6.9	45369
Lazard Cur Acc Fd DM	DM51.47	51.48	7.3	45370
Lazard Cur Acc Fd SF	SFr37.14	37.15	7.1	45371
Lazard Cur Acc Fd FF	FFr158.57	158.58	8.75	45372
Lazard Cur Acc Fd Man	$15.69	16.49	-	45375
Lazard D'fied Bnd (Inc)	$19.49	20.54	8.5	45386
Lazard D'fied Bnd (Acc)	$25.02	26.36	-	45387
Lazard European Fund	$46.59	49.37	1.0	45376
Lazard Far East	$50.46	53.69	-	45377
Lazard Global Equity	$25.54	27.16	-	45378
Lazard Int Inc $ (Inc)	$1013.37	1068.28	7.67	45388
Lazard Int $ Inc (Acc)	$2359.81	2487.66	7.67	45389
Lazard Int Inc £ (Inc)	£8.47	8.97	10.84	46157
Lazard Int Inc £ (Acc)	£11.98	12.63	10.84	46158
Lazard Japan Fund	$51.40	54.95	-	45390
Lazard Nth Am	$18.83	20.03	1.0	45379
Lazard Sel Port £ Cap	£11.91	12.84	-	45380
Lazard Sel Port £ Inc	£9.42	9.93	10.65	45381
Lazard Sel Port $ Cap	$12.83	13.84	-	45382
Lazard Sel Port $ Inc	$8.69	9.16	7.5	45383
M & G (Guernsey)				
Island Global Fd	835.9	889.31	0.99	45419
Merrill Lynch Guernsey				
Bangkok NAV Nov 21	$62.36		-	42704
Iberia Portfolio NAV	$9.86		-	46590
NM Financial Mgmt Intl Ltd				
Mngd Currency (Susp)	£-	-	-	45498
NM Portfolio Selection Fund Ltd (Suspended)				
Conscience	£-	-	-	46250
Far East Grwth	$-	-	-	46251
Smaller Co's	£-	-	-	46252
Special Sits	£-	-	-	46253
Intl Bond	$-	-	-	46254
American Fund	$-	-	-	45502
American Smaller Cos	$-	-	-	45504
Australian Fund	£-	-	-	45506
British Fund	£-	-	-	45508
European Fund	£-	-	-	45510
Gold Fund	£-	-	-	45512
Hong Kong Fund	£-	-	-	45514
International Fund	£-	-	-	45516
Japanese Fund	£-	-	-	45518
Japan Smaller Cos	£-	-	-	45520
Singapore & Malaysia	£-	-	-	45522
Dollar Fixed Interest	$-	-	-	45524
Sterling Fixed Int	£-	-	-	45526
Deutschemark Currency	DM-	-	-	45528
Dollar Currency	$-	-	-	45531
Sterling Currency	£-	-	-	45532
Yen Currency	Y-	-	-	45534
Managed Currency	£-	-	-	45536
Nikko Capital Mngt (Europe) Ltd				
Japan Index Fund	Y2,562	2,588	-	45559
New Generation Fd $	$24.29	24.54	-	45560
Japan Index Alpha	Y8,144	8,260	-	46350
Jap Sector Rotation	Y6,638	6,735	-	47334
Prudential Intl Financial Services Ltd				
Nations Currency Fund				
Managed Sterling	129.2	129.6	10.84	45637
Managed Dollar	$14.31	14.36	7.55	45638
Sterling Deposit	100.0	100.0	10.37	45639
Dollar Deposit	$10.00	10.00	-	45640
DM Deposit	DM50.30	50.49	6.21	45641
SwFr Deposit	SFr50.00	50.00	-	45642
J Yen Deposit	Y5,022	5,042	5.32	45643

Saudi International (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

The D-Mark factor

There are currently no strong tensions within the European exchange rate mechanism, but an early revaluation of the D-Mark is not ruled out by financial markets. Should this be the Bundesbank's intention, it might receive a more sympathetic reception in London than in Paris.

UK clearing bank base lending rate 14 per cent from October 8, 1990

The recent rise in the German Lombard rate was followed by increases in some Belgian and Dutch short term rates, and the authorities in both countries have made it clear that they intend to remain closely linked to the D-Mark. Hence, both the Belgian franc and the guilder have tended to follow the German currency up the ERM ladder.

This leaves the other members, including the French franc and sterling, as possible devaluation candidates, and the approach of next month's European inter-governmental conference is likely to increase speculation about a realignment, putting downward pressure on the franc and the pound.

If the market views the outcome of the UK Conservative party leadership contest as encouraging, not least in improving the ruling party's prospects at the next general election, then sterling should rally. But the new UK prime minister might welcome a sterling devaluation against the D-Mark in order to ease UK recessionary pressure and make room for interest rate cuts.

France is unlikely to be so accommodating. The government of Mr Michel Rocard has just survived a vote of no confidence and needs to keep downward pressure on inflation if potential unrest over public sector pay is to be avoided. Hence overall there could be strains in the Paris/Bonn accord but ones not totally unwelcome to a new Conservative party prime minister in London.

£ IN NEW YORK

Nov.23	Close	Previous Close
£ Spot	1.9670-1.9680	1.9695-1.9705
1 month	0.96-0.94pm	1.01-0.99pm
3 months	2.50-2.47pm	2.66-2.63pm
12 months	7.78-7.68pm	7.80-7.70pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Nov.23	Previous
8.30 am	94.1	94.1
9.00 am	94.2	94.1
10.00 am	94.2	94.3
11.00 am	94.2	94.3
Noon	94.2	94.1
1.00 pm	94.2	94.2
2.00 pm	94.2	94.2
3.00 pm	94.2	94.2
4.00 pm	94.3	94.2

CURRENCY MOVEMENTS

Nov 23	Bank of England Index	Morgan** Guaranty Changes %
Sterling	94.3	−18.2
U.S Dollar	60.0	−19.3
Canadian Dollar	101.2	−0.2
Austrian Schilling	110.3	+12.3
Belgian Franc	111.9	−1.7
Danish Krone	111.1	+5.4
D-Mark	120.0	+26.1
Swiss Franc	115.3	+24.4
Dutch Guilder	115.4	+16.9
French Franc	105.6	−11.2
Lira	100.0	−19.2
Yen	136.6	+72.1

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Nov.21.

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.9675	1.9580	1.9427	1.9234	1.8907

IMM-STERLING $s per £

	Close	High	Low	Prev.
Dec	1.9594	1.9620	1.9582	1.9618
Mar	1.9364	1.9390	1.9346	1.9386
Jun	1.9178	1.9190	1.9199	1.9200

CURRENCY RATES

Nov 23	Bank rate %	Special * Drawing Rights	European † Currency Unit
[illegible]			

OTHER CURRENCIES

Nov 23	£	$
Argentina	10344.0 - 10388.0	5260.00 - 5280.00
[illegible]		

CHICAGO

[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

Nov 23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.9665 - 1.9690	1.9670 - 1.9680	0.96-0.94cpm	5.79	2.49-2.46pm	5.03
Canada	2.2780 - 2.2845	2.2800 - 2.2810	0.32-0.25cpm	1.50	0.71-0.59pm	1.14
Netherlands	3.2925 - 3.3030	3.2925 - 3.3025	1½-1¼cpm	5.23	3½-3¼pm	4.09
Belgium	60.20 - 60.50	60.35 - 60.45	27-22cpm	4.87	67-57pm	4.11
Denmark	11.1890 - 11.2300	11.2180 - 11.2200	3⅛-3orepm	3.54	7¾-6½pm	2.56
Ireland	1.0900 - 1.1050	1.0940 - 1.0950	0.35-0.30cpm	3.56	0.77-0.70pm	2.69
Germany	2.9175 - 2.9275	2.9175 - 2.9275	1⅜-1¼pfpm	5.39	3⅛-3pm	4.19
Portugal	255.95 - 257.60	256.60 - 257.60	17-40cdis	−1.33	165-237dis	−3.13
Spain	184.50 - 185.60	184.65 - 184.95	20-25cdis	−1.46	54-68dis	−1.32
Italy	2191.10 - 2196.40	2192.75 - 2193.75	3-2lirepm	1.37	6-4pm	0.91
Norway	11.3880 - 11.4205	11.4025 - 11.4125	2¾-2orepm	2.50	4⅝-3¾pm	1.49
France	9.8400 - 9.8645	9.8475 - 9.8575	3½-3¼cpm	4.11	8¾-8pm	3.32
Sweden	10.9225 - 10.9625	10.9400 - 10.9500	½-⅞oredis	−0.75	4¼-4½dis	−1.64
Japan	250.00 - 251.00	250.00 - 251.00	1¼-1⅛ypm	5.69	3¼-2¾pm	4.79
Austria	20.52 - 20.60	20.54 - 20.57	9-7¼gropm	4.89	21½-18½pm	3.86
Switzerland	2.4650 - 2.4800	2.4700 - 2.4800	1⅛-1cpm	5.15	2¾-2½pm	4.24
Ecu	1.4120 - 1.4170	1.4140 - 1.4150	0.48-0.45cpm	3.94	1.08-1.03pm	2.98

Commercial rates taken towards the end of London trading. Six-month forward dollar 4.43-4.38cpm. 12 Month 7.73-7.63cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Nov 23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.9665 - 1.9690	1.9670 - 1.9680	0.96-0.94cpm	5.79	2.49-2.46pm	5.03
Ireland†	1.7950 - 1.8055	1.7985 - 1.7995	0.38-0.33cdis	−2.37	1.08-0.98pm	2.29
Canada	1.1570 - 1.1610	1.1585 - 1.1595	0.40-0.42cdis	−4.25	1.12-1.16dis	−3.93
Netherlands	1.6675 - 1.6775	1.6755 - 1.6765	0.08-0.11cdis	−0.68	0.31-0.35dis	−0.79
Belgium	30.55 - 30.75	30.66 - 30.75	[illegible]			
[illegible]						

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

Nov 23	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Swiss Franc	8⅞ - 8⅝	8¾ - 8⅝	8½ - 8⅜	8⅞ - 8¾	9 - 8⅞	9⅛ - 9
D-Mark	7⅞ - 7¾	8¼ - 8⅛	8⅛ - 8¼	8⅞ - 8¾	8⅝ - 8½	8⅝ - 8½
French Franc	9⅞ - 9¼	9⅝ - 9½	9⅞ - 9¾	9⅞ - 9¾	9 - 8⅞	9⅛ - 9
Italian Lira	13 - 11	13¼ - 12¼	12½ - 12	12¼ - 11⅞	10 - 9⅞	10⅛ - 10⅛
Belgian Franc	9⅛ - 9	9 - 8⅞	8⅞ - 8⅞	9⅝ - 9½	12¼ - 11⅞	12¼ - 12
Yen	8⅝ - 8½	8⅝ - 8½	8⅞ - 8⅞	8⅞ - 8¾	9⅞ - 9⅞	9⅞ - 9⅞
Danish Krone	9⅝ - 9½	9⅝ - 9½	10⅛ - 10	10⅜ - 10¼	8⅞ - 8⅝	8⅞ - 8⅞
Asian $Sing	7⅞ - 7⅝	7⅞ - 7⅞	8⅛ - 8⅛	8⅞ - 8⅞	10⅝ - 10½	10⅝ - 10⅝
					8 - 7⅞	8 - 7⅞

Long term Eurodollars: two years 8¼-8⅛ per cent; three years 8⅞-8⅞ per cent; four years 8⅝-8½ per cent; five years 8¾-8⅝ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

MONEY RATES

NEW YORK

Lunchtime

Prime rate	10
Broker loan rate	9½
Fed.funds	7½
Fed.funds at intervention	-

Treasury Bills and Bonds

One month	6.76	Three year	7.63
Two month	7.08	Four year	7.80
Three month	7.30	Five year	7.90
Six month	7.33	Seven year	8.16
One year	7.27	10-year	8.28
Two year	7.53	30-year	8.44

Nov.23	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	8.00-8.05	8.25-8.35	8.66-8.80	8.75-8.85	8.85-9.00	8.50
Paris	9¼-9⅛	9½-9⅜	9⅝-9⅞	9¼-9⅞	9⅞-10	9.50
Zurich	7⅞-7⅝	8¼-8⅞	-	8½-8⅞	-	-
Amsterdam	8.25-8.38	8.40-8.48	-	8.73-8.83	-	-
Tokyo	8⅞-8⅞	8⅞-8⅞	-	8⅞-8⅞	-	-
Milan	10¾-11	13¼-13⅞	-	13-13⅞	-	-
Brussels	7.00	8⅞-8⅞	-	9⅞-9¼	-	-
Dublin	10-10⅛	10⅞-10⅞	10½-10⅝	10⅞-10⅞	10¾-10⅞	-

LONDON MONEY RATES

Nov 23	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	25	14⅞	14	13½	12⅞	12⅞
Interbank Bid	14	14⅞	13⅞	13⅜	12⅞	12⅞
Sterling CDs	—	—	14	13⅞	12⅞	12⅞
Local Authority Deps.	14⅛	14⅛	14	13⅝	13⅞	13½
Local Authority Bonds	—	—	—	—	—	—
Discount Mkt Deps.	17	14⅛	13¾	13	—	—
Company Deposits	—	—	14⅛	13¾	—	—
Finance House Deposits	—	—	14	13½	13⅞	12⅞
Treasury Bills (Buy)	—	—	13¾	13⅜	12⅞	12⅞
Bank Bills (Buy)	—	—	13¾	12⅞	—	—
Fine Trade Bills (Buy)	—	—	14⅞	13⅞	12⅛	—
Dollar CDs	—	—	7.82	8.05	12¾	—
SDR Linked Dep. Offer	—	—	8⅞	9⅛	7.95	7.87
SDR Linked Dep. Bid	—	—	8⅞	9	9⅛	9⅛
ECU Linked Dep. Offer	—	—	9¾	10⅛	8⅞	8⅞
ECU Linked Dep. Bid	—	—	9⅝	9⅞	10⅛ 10	10⅛ 10

Treasury Bills (sell); one-month 13⅞ per cent; three months 13⅛ per cent; six months 12⅞ per cent; Bank Bills (sell): one-month 13⅞ per cent; three months 12⅞ per cent; Treasury Bills; Average tender rate of discount 12.7493 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day October 31, 1990. Agreed rates for period Nov 26,1990 to Dec 25, 1990, Scheme II & III: 15.32 p.c. Reference rate for period Sept 29,1990 to Oct 31, 1990, Scheme IV&V: 14.164 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15 from November 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 10½ per cent; one-three months 12 per cent; three-six months 12 per cent; six-nine months 12 per cent; nine-twelve months 11½ per cent; Under £100,000 10½ per cent from Oct 8,1989, Deposits withdrawn for cash 5 per cent.

PHILADELPHIA SE £/$ OPTIONS
£31,250 (cents per £1)

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
1.825	14.10	14.10	14.10	14.00	-	0.08	0.47	0.92
1.850	11.60	11.60	11.60	11.50	-	0.21	0.83	1.41
1.875	9.10	9.10	9.15	9.30	-	0.50	1.35	2.06
1.900	6.60	6.72	7.04	7.31	0.17	0.97	2.06	3.00
1.925	4.23	4.71	5.25	5.61	0.54	1.70	2.89	3.82
1.950	2.34	3.09	3.79	4.23	1.27	2.63	4.07	5.08
1.975	1.18	2.03	2.66	3.12	2.51	4.05	5.53	6.55

Previous day's open int: Calls N/A Puts N/A (All currencies)
Previous day's volume: Calls N/A Puts N/A (All currencies)

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 23 1990 US Dollar Index	% chg (5) since 29/12/89	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/89	Gross Div. Yield	THURSDAY NOVEMBER 22 1990 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1990 High	1990 Low	Year ago (approx)
Australia (76)	124.46	−17.8	93.78	100.19	96.15	108.23	−15.1	7.20	125.51	94.50	100.99	96.44	108.46	158.31	118.98	145.29
Austria (19)	199.93	+9.7	150.66	160.95	154.46	154.37	−3.5	1.77	200.20	150.75	161.11	153.84	153.99	285.63	178.57	145.74
Belgium (61)	137.99	−10.8	103.98	111.08	106.61	104.47	−23.1	5.55	138.90	104.58	111.76	106.73	104.82	160.02	126.67	146.55
Canada (120)	124.95	−17.9	94.16	100.58	96.53	104.87	−17.9	3.83	124.58	93.79	100.22	95.70	104.67	153.61	121.24	149.06
Denmark (33)	247.39	+2.1	186.42	199.15	191.13	191.79	−11.5	1.55	251.86	189.64	202.67	193.53	194.65	277.62	234.05	230.49
Finland (25)	104.25	−21.8	78.55	83.92	80.54	78.07	−31.0	3.91	103.33	77.80	83.15	79.40	77.17	152.29	98.91	119.32
France (122)	140.78	−9.8	106.08	113.32	108.75	110.58	−21.9	3.76	141.10	106.25	113.54	108.42	110.45	168.85	124.96	136.77
Germany (91)	119.51	−3.4	90.05	96.22	92.33	92.33	−15.1	2.46	121.55	91.52	97.82	93.40	93.40	144.63	101.38	102.13
Hong Kong (48)	122.79	+4.8	92.53	98.84	94.87	122.89	+4.7	5.39	123.39	92.91	99.29	94.82	123.33	147.49	112.24	118.96
Ireland (17)	151.05	−16.8	113.82	121.60	116.70	118.31	−28.2	4.42	153.60	115.65	123.60	118.02	119.87	198.57	139.04	161.18
Italy (91)	79.75	−19.0	60.09	64.19	61.61	68.39	−28.8	3.71	79.38	59.77	63.87	60.99	65.86	109.26	79.38	91.97
Japan (454)	129.49	−34.4	97.58	104.24	100.05	104.24	−41.9	0.82	129.54	97.54	104.24	99.55	104.24	197.26	106.58	190.28
Malaysia (35)	195.88	−14.5	147.59	157.66	151.31	202.27	−15.0	3.33	196.32	147.82	157.97	150.85	202.90	250.89	182.96	202.54
Mexico (12)	562.76	+72.9	424.06	453.02	434.77	1809.58	+89.0	0.38	561.91	423.10	452.16	431.78	1806.86	582.76	324.53	287.89
Netherland (41)	134.49	−6.5	101.34	108.26	103.90	102.88	−18.0	5.22	134.37	101.18	108.13	103.28	102.24	149.03	127.56	129.32
New Zealand (16)	49.87	−30.8	37.58	40.15	38.53	43.18	−33.0	7.78	49.56	37.32	39.88	38.08	42.91	75.36	47.90	74.94
Norway (27)	214.35	+7.3	161.52	172.55	165.60	168.67	−5.7	1.83	214.04	161.16	172.23	164.47	168.06	276.79	202.34	172.97
Singapore (25)	158.94	−11.4	118.26	126.34	121.24	123.56	−20.4	3.57	156.58	117.90	126.00	120.31	123.35	209.24	147.24	163.24
South Africa (60)	174.43	−11.2	131.44	140.41	134.76	129.68	−14.7	4.21	173.21	130.42	139.37	133.09	130.33	251.39	151.50	173.29
Spain (42)	146.97	−9.9	110.75	118.31	113.54	104.77	−22.5	5.31	148.34	111.70	119.37	113.98	105.53	182.25	128.54	156.76
Sweden (27)	155.79	−18.9	117.39	125.41	120.36	128.29	−27.1	3.17	158.90	119.65	127.87	122.10	130.50	234.93	155.79	161.98
Switzerland (68)	89.68	−4.7	67.58	72.18	69.28	69.85	−22.2	3.01	90.65	68.26	72.95	69.66	70.19	109.77	85.00	89.17
United Kingdom (298)	170.78	+7.6	128.67	137.45	131.91	128.67	−11.8	5.40	167.62	126.21	134.87	128.79	126.21	176.18	139.87	141.65
USA (533)	127.20	−11.1	95.85	102.40	98.28	127.20	−11.1	3.88	127.55	96.04	102.64	98.02	127.55	148.95	119.06	139.64
Europe (962)	139.67	−1.9	105.25	112.43	107.91	106.82	−16.8	4.35	139.20	104.81	112.01	106.96	106.16	157.65	124.91	126.61
Nordic (112)	171.68	−8.3	129.52	138.36	132.79	131.78	−19.1	2.30	174.46	131.36	140.39	134.06	133.38	223.29	171.88	166.89
Pacific Basin (654)	128.75	−33.1	97.02	103.65	99.47	104.68	−40.2	1.21	128.85	97.02	103.69	99.01	104.68	192.75	107.82	185.73
Euro - Pacific (1616)	133.55	−22.6	100.64	107.50	103.17	106.38	−32.0	2.55	133.42	100.46	107.35	102.51	106.11	174.18	116.03	162.16
North America (653)	126.97	−11.5	95.68	102.23	98.11	125.73	−11.5	3.88	127.28	95.84	102.43	97.82	126.05	148.43	119.26	140.10
Europe Ex. UK (664)	120.59	−8.0	90.87	97.09	93.18	93.97	−20.1	3.55	121.55	91.52	97.88	93.42	94.30	145.62	109.94	116.29
Pacific Ex. Japan (200)	119.38	−11.5	89.96	96.11	92.24	106.82	−10.9	6.17	120.03	90.36	96.60	92.24	107.03	146.72	116.03	131.40
World Ex. US (1808)	133.91	−22.3	100.91	107.80	103.46	107.00	−31.2	2.61	133.75	100.71	107.64	102.78	108.74	173.77	117.12	161.89
World Ex. UK (2043)	126.62	−21.3	95.41	101.93	97.83	111.70	−28.4	2.72	128.95	95.59	102.16	97.58	111.89	162.00	115.37	154.01
World Ex. So. Af. (2281)	130.27	−18.9	98.17	104.88	100.65	113.28	−25.1	3.02	130.30	98.11	104.88	100.13	113.19	161.84	118.04	152.76
World Ex. Japan (1887)	132.38	−7.7	99.75	106.57	102.29	118.25	−13.5	4.16	132.38	99.88	106.54	101.74	118.12	151.59	124.31	135.14
The World Index (2341)	130.54	−18.8	98.37	105.09	100.86	113.40	−25.0	3.03	130.58	98.31	105.06	100.33	113.31	162.05	118.39	152.88

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 130.65 (US $ Index), 114.45 (Pound Sterling) and 122.29 (Local).

Constituent change: Name change: (22/11/90) Metropolitana Inmobiliaria to Metrovacesa (Spain). Market closed: Nov. 23: Japan.

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

BRITISH FUNDS—Contd

Index-Linked

[illegible]

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1990: 121.4 and for October 1990: 130.3.

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

هكذا مزءالأصل

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

MOTORS, AIRCRAFT TRADES — Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY — Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST — Contd

INVESTMENT TRUST — Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

For York Trust see Babcock Prebon

WATER

OIL AND GAS

OIL AND GAS — Contd

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
1.20	Do. Warrants. . . . γ	28	5.3	–	–	–	3389
36,728.4	Exxon£	£25¾	1.2	4.7	7.11	Mr Jn Sep Dec	2521
29.1	*Fairhaven Intl. 5c . γ	12½	–2.0	0.4	9.4	May	3501
3.34	*Firstland Oil 10p… γ	15	......	–	–	–	2578
4.97	Gaelic Resources .. γ	5½	......	–	–	–	4579
–	♥Global Nat Res.	349	3.3	–	–	–	2706
132.7	Goal Pet 5p……β	99	4.2	1.3	9.4	May	2714
156.7	Gt. Western Res. A£ .γ	173xd	12.0	3.2	19.11	Feb Jun	2742
–	♥Gulfstream Res	9	–5.3	–	–	–	–

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES — Contd

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
	Tins						
2.29	♥Ayer Hitam SM1..	25	......	–	9.3	Apr Nov.	1714
7.18	Kuala Berhad M$0.50	45	......	4.6	12.3	Sep Apr	2726
112.9	Malaysia Mng 10c...	27	......	4.9	8.10	Nov Jun	3272

Miscellaneous

THIRD MARKET

For Haemocell see INDUSTRIALS

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

● "Tap Stock"
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
* USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Not officially listed.
ø Price at time of suspension
¶ Not comparable
‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
★ Cover does not allow for shares which may also rank for dividend at a future date.
‖ No par value

B.Fr. Belgian Francs, Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1.. γ	700xd	0.3
Finlay Pkg. 5p…. γ	38	.....
Holt (Jos) 25p….. γ	1305	.....

IRISH

Cap. 8½% Ln. 1991	£98¾	.....
9pc Cap Ln. 1996..	£94	1.1
Fin. 13% 97/02..	£110½	.....
Arnotts	167¾xd	–1.5
Carrol (P.J.)	154	.....
Helton Hldgs……γ	43	–4.4
IRG	153¼	.....
United Drug	133	.....

TRADITIONAL OPTIONS
3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	6
Aotec (BSR)	4½
BAT	45
BOC Grp	39
BTR	29
Barclays	27
Blue Circle	17
Boots	21
Bowaters	41
Brit Aerospace	43
British Steel	10½
Brit. Telecom	22
Cadburys	26
Charter Cons	37
Comm Union	37
Courtaulds	25
Eurotunnel	40
FKI	5¾
FNFC	20
Gen Accident	37
GEC	14
Glaxo	57
Grand Met	44
Guardian	15
GKN	27
Hanson	16
Hawker Sidd	39
ICI	70
Ladbroke	22
Legal & Gen	29½
Lex Service	28
Lloyds Bank	21
Lucas Inds	11
Marks & Spencer	18
Midland Bk	28
Nat West Bk	18
P & O Dfd	42
Racal Elect	14
RHM	23
Rank Org Ord	49
Reed Intnl	30
STC	19½
Sears	8½
SmKl. Beecham A	44
TI	37
TSB	10
Tesco	19
Thorn EMI	49
Trust Houses	21
T&N	14
Unilever	50
Vickers	19
Wellcome	38

Property	
Brit Land	24
Control Secs	3½
Land Securities	42
MEPC	38
Mountleigh	11

Oils	
Aviva Petlm	3½
Brit Petroleum	28
Burmah Castrol	44
Conroy Petlm	20
Gaelic Res	2
Premier	8½
Shell	40
Tuskar Res	6
Ultramar	31

Mines	
Lonrho	21
RTZ	40

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,050 a year for each security shown, subject to the Editor's discretion.

4pm prices November 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
27½	9½	AAR	.45	4.3	7	182	11⅝	11¼	11⅜	- ⅝
9¾	7½	ACM n	1.01	12.		53	8½	8½	8½	
11⅝	8⅞	ACMIn	1.26	13		1595	9⅞	9¾	9⅞	+ ⅛
9¼	6½	ACM M n1.01		14		210	7½	7⅜	7⅜	
12⅛	10	ACMMM	1.50	13.		42	11⅝	11½	11⅝	
11½	8⅝	ACM Sc1.26		13		849	9¾	9⅝	9¾	+ ⅛
9⅞	7½	ACMSp	1.01	12.		424	8⅝	8¼	8¼	- ⅛
24⅝	15⅞	AL Lab	.16		7 19	139	23	22¾	23	+ ¼
5½	1	AM Intl				837	1⅝	1⅜	1½	+ ⅛
20⅛	4⅝	AM In pf	2	31.		65	6½	6¼	6½	
70¼	39⅝	AMR			14	370	47	46⅛	46¼	- ¼
24⅝	22¼	ANR pf 2.12		9.3		2	22¾	22¾	22¾	
4	1⅛	ARX				240	1⅝	1½	1½	- ⅛
72¼	38¼	ASA	3	7.3		346	41¼	40⅝	40⅞	+ ¼
5½	3⅛	ATTC wt				10	3½	3½	3½	+ ½
45⅞	31¼	AbtLab s.84		2.0	20	1744	42½	41¾	42¼	- ⅛
13	10⅞	Abitibi g .50				30	11⅝	11⅜	11⅜	+ ⅛
11⅞	4⅝	AcmeC	.40	7.8	12	13	5⅛	5⅛	5⅛	- ⅛
9¼	5	AcmeE	.32	6.0	9	14	5⅜	5⅜	5⅜	- ⅛
33¼	16⅞	Acuson s			19	497	23⅜	22¾	23⅜	+ ⅝
16⅞	14⅝	AdaEx	1.72e	12.		50	14⅝	14½	14⅝	
15⅞	10¼	Adobe				11	10⅞	10⅞	10⅞	
20¾	16	Adob pf	1.84	11		27	17	17	17	
21⅝	19¾	Adob pf 2.40		12.		8	20⅜	20⅛	20⅛	
11½	3⅝	AMD				989	4¼	4	4	- ¼
22⅝	13	AMD pf	3	19.		18	16	15½	16	+ ½
9¼	1⅝	Advest	.16	6.7		77	2⅜	2⅛	2⅜	+ ⅛
62	29	AetnLf	2.76	7.5	9	1902	36¾	36	36⅝	+ ⅝
12½	6¼	AflPb	.24	3.4		216	7⅛	7	7⅛	+ ⅛
22½	10⅝	Ahmans	.88	7.0	5	2077	12⅝	12½	12⅝	
3⅞	1⅞	Aileen			8	2	3	3	3	- ⅛
51	42⅞	AirPrd	1.44	2.9	12	241	50	49⅜	49⅜	
27	13½	ArFrt s	.30	1.9	8	393	16⅛	15⅝	15⅝	- ⅛
[illegible]										

Continued on Page 43

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
58¼	43¼	Wrigley	1a	1.9	18	84	54⅛	53⅞	53⅞	− ⅛
15¾	8¼	WyleLb	.28	2.5	10	110	11	10¾	11	+ ¼
24¼	13¾	WynnA	.60	4.1	9	6	14½	14½	14½	− ¼
		− X − Y − Z −								
60⅛	29	Xerox	3	8.9	6	4810	33⅞	33½	33⅞	− ⅛
32⅛	13	XTRA	.72	5.2		10	13⅞	13⅝	13⅞	
25	12½	XTRA pf	1.94	15.		7	13¼	13¼	13¼	− ⅛
4	⅝	Zapata				212	11-16	⅝	⅝	− 1-16
13¾	4	ZenithE				302	6⅜	6¼	6¼	− ⅛
19⅞	9⅞	ZenNal	.88	8.6	7	34	10¼	10¼	10¼	− ⅛
7⅞	4½	Zenia	.88	20.		206	4⅜	4⅜	4⅜	+ ⅛
17¼	9⅞	Zero	.40	3.6	12	65	11⅞	11½	11½	− ⅛
51½	29⅝	Zurnin	.89	2.6	16	41	33½	33¼	33⅜	− ⅛
12⅝	10⅛	Zweig	1.18e	11.		70	10⅞	10¾	10¾	
10	7⅞	ZweigTl	.84	9.5		1040	8⅞	8⅝	8⅞	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales infull. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices November 23

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pitney A	1.10	7	26	17	16⅝	16⅝	− ⅝
[illegible]							

NASDAQ NATIONAL MARKET

4pm prices November 23

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						
Zions		17 67	14¾	14½	14½	− ¼
ZionBc	1.44	7 20	28¾	28⅝	28⅝	

MONDAY INTERVIEW

Survivor passes the baton

Lee Kuan Yew, the prime minister of Singapore, talks to **Paul Taylor**

After 31 years at the helm, Singapore's pugnacious prime minister, Lee Kuan Yew, will step aside this week, making way – in theory at least – for a new generation of younger leaders in the tiny island-state of 2.7m people at the tip of the Malay peninsular.

Prime minister Lee has always provoked strong emotions. There are those in Singapore and elsewhere in south-east Asia who would emulate his direct and forceful approach; there are others for whom his ideals are anathema.

So what will Mr Lee's legacy be? Most obviously it will be the turning of a sleepy trading post at the centre of the old British empire into a viable, cohesive economic powerhouse. "We inherited the heart without the body. We had to keep the blood flowing and we did that by linking up with the industrialised world, first America, then Europe and then Japan," he says.

His economic success is undeniable. Average economic growth of 9 per cent over the past 25 years and a per capita Gross National Product of US$10,500 today have given Singaporeans the second-highest standard of living in Asia after Japan.

At the same time, as one of a dwindling band of elected politicians who have led their countries to independence, Mr Lee can also lay claim to being an elder world statesman.

On Iraq's invasion of Kuwait he says the lesson is that Kuwait was not organised to defend itself. He says that in Singapore "you can press a button and there can be three divisions of fully-equipped men" on the streets. "Anybody with designs on Singapore must take into account that this is a place where there is the organisation to express the will of the people."

In the Asia Pacific region he sees the need for a new "more equal" relationship between the US and Japan to help guarantee regional security. Without this he warns that Japan's economic power might eventually have to be defended by military power. He has built himself a reputation as an expert on China, assiduously maintaining good contacts with both Beijing and Taipei and predicting that, despite Tiananmen Square, after a "stabilisation period" China will resume fast growth.

In Indo-China, as in China itself, he says "communism as an ideological force is finished and bankrupt", but adds that this "does not mean the communists have given up". Eventually, however, he says the communist countries of Asia, like those of eastern Europe, will have to move towards free market economies.

The more problematic part of Mr Lee's legacy lies at home. In Singapore he has created a conformist, dull society, a managed democracy where the rights of the individual have been rendered subservient to the perceived greater good of the community as a whole. Some suggest this is why several thousand Singaporean families, many well educated, emigrate each year.

For Mr Lee, a Cambridge-educated, articulate man with a sharp lawyer's mind and a tongue to match (one unfortunate journalist reportedly left his office in tears after just 10 minutes recently) this view is not merely a western misconception – it also fails to recognise the Singaporean experience, which Mr Lee has long seen as a struggle for survival.

"It is always difficult to reduce what one has done over 31 years to a kind of compass point," he says. "It has been a series of different challenges." However he concedes that: "if there is one golden thread . . . it was just how to survive."

This applied both to his early struggles with the communists and to Singapore's brief, unhappy participation in the Malaysian Federation in 1963 – an episode which ended two years later when Malay-Moslem-dominated Malaysia unceremoniously ejected Chinese-dominated Singapore and the latter became an independent republic.

Ever since, Mr Lee, who in a rare show of emotion wept when he announced the expulsion, has used Singaporean fears about perceived external or internal threats to encourage his constituents to work ever harder. He is said to be admired and respected by most Singaporeans, who have re-elected him and the Peoples Action Party eight times since 1959.

Mr Lee, now an energetic 67-year-old, has sought to remould the very nature of Singaporean society. In particular he has tried to inculcate what he calls "Asian values". These, he says, are "a certain attitude towards life which raises the interest of the community above that of the individual . . . the contrary values would be the libertarian, individualistic philosophy of the West as exemplified today by the Americans."

He describes himself as a Confucianist in a Confucian society where regulations, including hefty fines for such offences as littering, smoking in restaurants or on the public transport system, or failing to flush a public lavatory are not only necessary but expected.

"If you are living in a wooden hut with a plastic roof and your toilet is a hole in the ground, you don't have to bother about whether you flush or you don't flush it. Your problem is how to ignore the flies . . . But when you have transferred them into high-rises and they keep their loos clean at home but leave the communal facilities in offices and in the markets as if they were holes in the ground, then obviously a certain educative process is necessary," he says.

'I am a kind of check, a holdover'

While he insists that "anybody can dissent on non-essential matters" he is not known for his tolerance. His government has been variously accused of harassing church workers, the law society, academics, foreign and domestic media and opposition politicians, some of whom are still detained under Singapore's Internal Security Act. "If we had a Salman Rushdie, we wouldn't wait for the Moslems to start protesting. We'd move before even the Moslems came to know of it because we know that would lead to problems," says Mr Lee.

Freedom of the press is certainly an issue on which Mr Lee holds strong views. The Straits Times, Singapore's English-language daily, is controlled by and acts as a mouthpiece for the government. Prime minister Lee's well-publicised battle with Dow Jones, publisher of both the Hong Kong-based Asian Wall Street Journal and the Far Eastern Economic Review, led the US group to withdraw both publications from sale in Singapore when faced with severe curbs on their circulation.

Mr Lee counters that what foreign publications say about Singapore to their domestic audiences is of "no relevance", but insists that by setting up in Hong Kong and reporting Singapore to Singaporeans, foreign publications have been "engaging in a day-to-day debate of what we do and should do in Singapore". They were, he says, "participating in my politics, and my politics require that I have the right of reply", something he claims he was denied.

Some younger Singaporeans, particularly those abroad, complain, privately but not publicly unless they are foolhardy, that Mr Lee and the PAP leadership is out of touch with the younger generation. They argue that, with communism in retreat, the government could and should relax its grip.

But the austere Mr Lee shows no signs of relaxing either his grip, or his attitudes. Asked if he feels he has got Singapore where he wants it he replies: "One never gets it right. One gets as far as circumstances will permit, as much right as possible. And the situation keeps changing and the balance is altered and threatened and you have to find a new balance."

Certainly few expect any big immediate changes when Mr Goh Chok Tong, Mr Lee's designated successor, takes over as prime minister on Wednesday, although he has promised a more "gracious" society.

For one thing Mr Goh has been carefully drilled through 13 years in the Lee cabinet. Second, Mr Lee's eldest son, Brigadier-General Hsien Loong (known as BG Lee), will be looking over Mr Goh's shoulder in his role as first deputy prime minister – and some say Mr Goh's potential successor should he stumble at the next general elections due in 1993. Finally Mr Lee himself is hardly stepping down.

Not only will he keep a senior cabinet post as a senior minister without portfolio (and an office in the prime minister's Gurkha guarded residence), he does not rule out eventually standing for the new post of elected president.

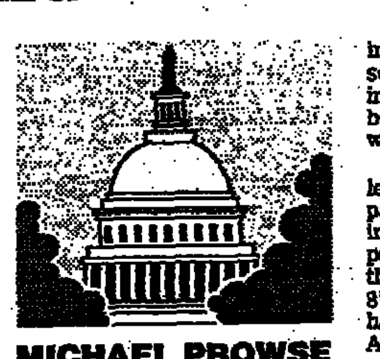
Mr Lee says he has confidence in the younger leaders he has trained. "But they face a very daunting problem. They are taking over from a generation that forged their authority through crisis or a series of crises and in the process got tempered, what the communists call 'tempered through the crucible of struggle'."

Foreign investors, he believes, "find solace and reassurance with me being around. I am a kind of check, a holdover." In other words Singapore's Lee era is probably not yet over, it is just entering a new phase. In the end, however, it will be up to Singapore's voters to judge his legacy. So far they have concentrated more on their pockets than on politics.

PERSONAL FILE

1923 Born in Singapore.
1949 Double first at Cambridge University.
1950 Married KWA Geok Choo (three children: two boys, one daughter).
1954 Helped found the People's Action Party.
1959 Elected prime minster after PAP won Singapore's first general elections to Legislative Assembly.
1963 Singapore joins Federation of Malaysia.
1965 Singapore becomes independent republic after expulsion from Malaysia.
1968 PAP wins all 58 seats (51 unopposed) with 84.43 per cent of vote.
1988 PAP wins 80 out of 81 seats (11 unopposed) with 61.76 per cent of vote.
Nov 1990 Hands over premiership to Goh Chock Tong.

Give a little credit to Bush and his foes



MICHAEL PROWSE on America

Nobody in the US appears to have a good word to say about the recent Budget agreement between White House and Congress. Yet I wonder whether the criticism is fully justified. The process of reaching agreement was certainly messy but this merely reflects the plurality of the US system. There would have been worse strife in Britain had Mrs Margaret Thatcher been obliged to negotiate a budget with Mr Neil Kinnock, the Labour leader.

Consider what the US agreement did achieve. To start with, it swept away the old Gramm Rudman machinery for curbing red ink. This had set explicit targets for the federal deficit and threatened a recalcitrant Congress with swingeing across-the-board cuts in spending programmes.

This approach was mistaken for two reasons. It was irrational to target a cash deficit that is influenced by many factors beyond the immediate control of policymakers, such as the level of unemployment. More important, the cuts envisaged were so fierce that they could never be allowed to happen.

The new rules concocted by Mr Richard Darman, the Budget director, are doubtless flawed. But they are at least intellectually respectable. The US is now attempting to cap spending rather than deficits. This makes sense because the scale of government intervention is better measured by the level of expenditure than by the particular mix of taxes and borrowing chosen to finance it.

Congress is being asked to keep a lid on its own spending initiatives but sensibly will not be penalised if, say, a deep recession drives up the overall cash deficit. Further, different parts of the Budget are being compartmentalised. There are separate caps for defence spending, discretionary spending and domestic entitlement programmes such as pensions and health care. This should curb some abuses if even it does not promote the rational debate about priorities sought by Mr Darman.

For example, discretionary programmes for the disadvantaged used to be squeezed because Congress was unwilling to limit resources for middle-class pensions. It will be harder in future to siphon off funds in this way.

Now consider the agreed mix of spending cuts and tax increases. The White House, for obvious reasons, played down the reliance on tax increases. However, Mr Eugene Steuerle of the Urban Institute points out that if you ignore savings on debt service and the speculative fourth and fifth years of the agreement, increases in taxes account for almost 50 per cent of total savings of $370bn.

Defence cuts account for a further third of savings. Civil domestic programmes emerge almost entirely unscathed with cuts accounting for only 17 per cent of total savings. Even this may be an exaggeration because the cuts include financing changes which count as negative spending. In gross terms, says Mr Steuerle, cuts in domestic programmes account for only 7 per cent of total savings.

This may infuriate conservatives. But US taxes are still low by international standards while its domestic challenges remain acute. It is appropriate, therefore, that most civil programmes should remain fully indexed for inflation.

The tax changes finally agreed were also encouragingly progressive. Families earing $200,000 or more face a tax increase of some 6 per cent. This mainly reflects the modest rise in marginal rates (from 28 per cent to 31 per cent) and restrictions on the personal exemption and itemised deductions at high income levels.

At the bottom of the scale, families benefit significantly from the increase in the earned income tax credit, which is a sort of embryo negative income tax. Families earning between $10,000 and $20,000 will enjoy a 3 per cent tax cut.

Overall, the agreement leaves the richest 20 per cent paying 27 per cent of their income in tax, the middle 60 per cent paying 20 per cent and the bottom 20 per cent paying 8½ per cent. Karl Marx would have disapproved but most Americans will judge this reasonably equitable.

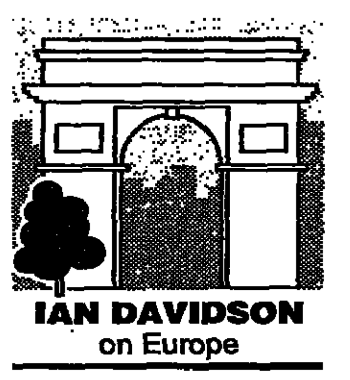
The ratios, incidentally, are almost identical to those Ronald Reagan inherited from Jimmy Carter in 1980. But will these modest changes provide a sufficient curb on the ballooning federal deficit?

Many critics say the $40bn of savings in the first year are wholly inadequate and worry that the deficit is now out of control. Deficit projections of $300bn plus are commonplace. Yet given the fragile condition of the US economy, it would be foolish to tighten fiscal policy too abruptly. The $40bn cut represents a 12½ per cent reduction in the deficit even on the worst assumptions. This is surely enough for now.

But the criticism also ignores the fact that the headline deficit is a misleading economic indicator. To encourage restraint, Mr Darman has excluded the big emerging surplus on federal pensions and included the costs of the savings and loan bailout. Yet the social security surplus is a surplus of taxation over spending like any other. S&L expenditure, on the other hand, only ensures that depositors do not experience a loss; it is an adjustment for past excesses, not a current stimulus.

Urban Institute calculations suggest that the true "economic" deficit will decline from $163bn (2.8 per cent of GNP) this fiscal year to $55bn (0.5 per cent of GNP) in 1995. A Gulf war or deep recession would make these projections look ludicrously optimistic. But it is far from clear that medium-term budget planning should assume that either of these calamities is inevitable. Mr Bush and his congressional foes are not supermen. But they deserve a little credit for what they achieved last month.

EC debate minus Thatcher



IAN DAVIDSON on Europe

THE MOST immediate cause of Mrs Margaret Thatcher's downfall was the deep split in the Conservative party brought about by her divisive hostility to the European Community. The curious thing is that this bitter controversy appears to have no equivalent in other European countries. We all know that Mrs Thatcher is different; but is it also possible that Britain is different?

The contrast can be easily explained, yet it is still surprising. The original Six have been members of the European Community for nearly 40 years, and the Community has progressively informed the assumptions of all mainstream parties and socio-economic groups. Britain, by contrast, is still a relative novice, and the country is still trying to come to terms with membership.

In Britain, moreover, the European debate has been brought into focus by the belligerent nationalism of the prime minister , whereas no other government in the Community is now fundamentally at odds with the Community model. In the 1985 negotiations on the Single European Act, Britain's nationalism was supported by other peripheral countries like Greece and Denmark. But over time the line-up has changed: Britain is now alone in resisting Economic and Monetary Union.

In the French context, the fundamental turning point in *economic* perceptions of the Community came with the Single Act five years ago. Before 1985, the French tended to think of the Community in terms of interventionism and market organisation, as with the farm policy and the managed run-down of the steel industry; the French were not at home with deregulation and the free market, on the left or the right, and the Community did not absolutely require it.

Since the 1985 treaty on the single European market, there has been a steady shift in France towards market values, as a counterpart of the policy of disinflation and the hard franc. The stresses of adapting to this policy are not popular with everybody, witness the rise of the extreme right-wing National Front; but since the country has by now largely internalised the pride and the pain of the switch to a hard franc policy, the further transition to monetary union does not seem all that dramatic.

So there you have an explanation as to why there has so far been no real debate in France on the future of the European Community. But wait for it: we are just about to witness such a debate. It will be fierce and visceral, and it will be an almost exact equivalent of the debate in Britain.

The point is that the debate which has *not* happened is economic; whereas the debate which is just about to erupt is political. The realities of the international economy, inside the Community as well as outside, were bound to undermine French yearnings for Colbertist interventionism; and there are manifest advantages in pinning the franc to the D-Mark.

But somehow the politicians have until now averted their eyes from the political fact: that the treaty on Economic and Monetary Union, and the political union accompanying it, will involve a massive transfer of national sovereignty to the Community institutions.

This may not matter enormously in a country like Germany, which is already a federation, and which seeks to buttress its new-found national unity in a wider European structure. But it is like an earthquake to conservatives in France, which is an old imperial power, and which is still (after Thatcher's Britain) the most centralised national state in western Europe.

As in Britain, the implied Community threat to national sovereignty is being felt most deeply on the right of the political spectrum. The communists have always been hostile to the Community, but less for reasons of national sovereignty than because it is a capitalist conspiracy. Most of the Socialist party earnestly supports the president's European policy, though there is also a minority wing of nationalists.

On the right, however, all is disarray. The UDF centre-right umbrella grouping and the UDC Centrist Party are both committed to far-reaching European integration, including Economic and Monetary Union. But the other mainstream conservative formation, the Gaullist RPR party, is now split right down the middle, between those that would like to become ordinary conservatives, and thus in favour of Europe and the market, and those traditionalists who are now invoking the nationalist roots of Gaullism to protest against the imminent surrender of national sovereignty.

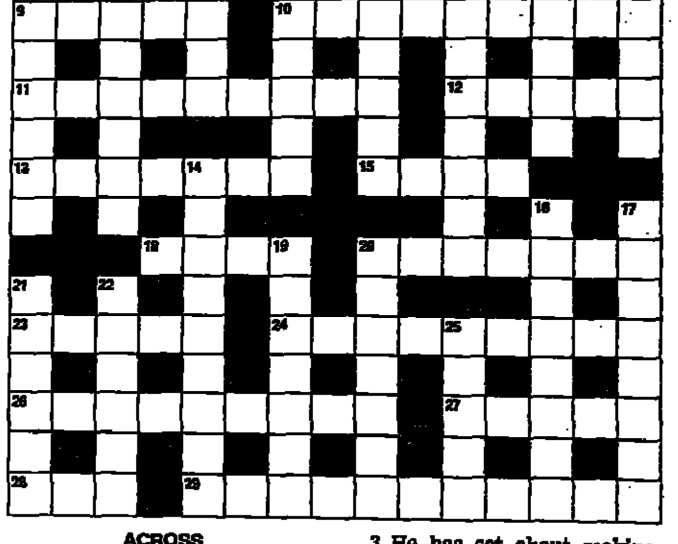
The RPR leadership is attempting to heal the party split, with a modest attack on President Mitterrand's declared ambition for a European federation in terms that Mrs Thatcher would approve. But this compromise move seems doomed to failure. Indeed, the visceral Gaullists now want to by-pass the European Community, and move straight to a loose pan-European confederation of nation states. Not even Mrs Thatcher has gone that far.

In the end, neither the Gaullists nor the Thatcherites will be able to contradict the Community's integrationist logic, because the combined forces of politics, history, geography and economics will be too strong. But the transition will be healthier if atavistic fears are brought out into the open.

JOTTER PAD

CROSSWORD

No.7,403 Set by DANTE



ACROSS

1 Dictatorial soldiers in khaki, for example (10)
7 A mug of juice (3)
9 Cut and run (5)
10 Fancy craft that's most attractive (9)
11 In which to plant bulbs? (5,4)
12 Loves an anagram to work out (5)
13 Small bird needs tail bent when in bed (4,3)
15 Made processed cheese (4)
18 Deliver an item of pottery (4)
20 Finish off the job? (7)
23 Fit of wild pique (5)
24 Spare room? (9)
26 Diners wind up eating it (9)
27 A feeling of guilt has upset me (5)
28 I'd return to start early or give up altogether (3)
29 "Look Back in Anger" perhaps? (7,4)

DOWN

1 Lose track of account in simple form (8)
2 Russian, American or English architecture (8)
3 He has set about making rope (5)
4 Last to finish with majority (7)
5 Sheet that doesn't stay put – it's cold! (3-4)
6 A light covering (9)
7 Bird taken by cunning, without haste (6)
8 Club for those at the green stage (6)
14 Nothing unusually posh in a voyage in this (9)
16 Reveal oneself to be a beastly coward! (4,4)
17 Badly cut, see! (8)
19 Places drawn roughly to scale (7)
20 Professors discharged – ie elevated and retaining worth (7)
21 Well acquainted with the metric system (6)
22 A truce arranged between vicar and laity (6)
25 How bread's gone up! (5)

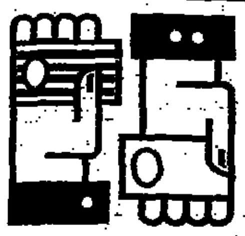
The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 8.

FINANCIAL TIMES SURVEY

VENTURE CAPITAL

SECTION III

Monday November 26 1990



The economic downturn heralds a more difficult period for the industry. A decade of expansion is likely to be followed by much slower growth and lower returns. **Charles Batchelor** asks whether venture capitalists can adapt successfully to changing conditions

Now for the lean years

THE BRITISH venture capital industry has a testing few years ahead of it. The 1980s were a period of unbroken expansion which peaked with the management buy-out boom of 1987/89. But the present decade has begun with gloomy forecasts that the industry must prepare for a period of slower growth and lower returns.

Venture capitalists are having to devote more time to monitoring companies in their portfolios as the recession bites. Ron Hollidge, managing director of Lloyds Development Capital, estimates that his managers are now spending 40-50 per cent of their time helping portfolio companies, against just 10-20 per cent previously.

More important still, the focus of the venture capital industry appears to be shifting even further towards backing larger, established companies. While there is a useful economic role to be fulfilled here, the task of backing start-ups and early-stage companies is being left to a minority of venture capital funds.

Twelve months ago the problems in the management buy-out sector appeared to herald a shift back to earlier-stage investments by venture capitalists. Early-stage investments accounted for 15 per cent of the £1.65bn invested by venture capitalists in 1989, up from the 10 per cent share in the £1.4bn invested the year before.

However, it has proved more difficult than it was originally thought to convert venture capitalists used to dealing with large buy-out deals into backers of young companies: "Managers in the larger funds often don't know how to handle early-stage investments," says Michael Denny, executive chairman of Northern Venture Managers and chairman of the British Venture Capital Association (BVCA).

Initiatives by the BVCA and the European Commission to create new "seed capital" funds have also encountered obstacles. A BVCA plan for a dozen regional seed capital funds in Britain has succeeded in winning commitments to provide nearly £10m from corporate backers. But the scheme depends on government support to meet the management fees and there is little sign that the government will oblige. Meanwhile the European Commission's plan for 24 seed capital funds throughout Europe is off to a slow start with several of the funds having difficulties raising finance.

The venture capital industry's enthusiasm in recent years for the quick returns provided by management buy-outs have persuaded 3i, Britain's largest venture capital company, to seek to distance itself from the term "venture capital". Earlier this month 3i launched a £1.5m advertising campaign proclaiming the company to be a provider of long-term "investment capital" and decrying venture capital as being short-term.

The forecast that venture capitalists will have to accept lower rates of return came from Mr Denny when he took over as BVCA chairman earlier this year. The demise of large, highly-leveraged buy-outs and the refusal of the banks to back highly-geared venture capital deals have put pressure on the returns available to equity investors.

Venture funds which in the past typically aimed for rates of return of between 30 and 40 per cent could now realistically expect to make between 15 and 25 per cent, says Andrew Joy, a director of Causeway Capital. However, as long as venture capital can continue to earn a reasonable premium over quoted investments, it should be able to continue to attract funds.

But as venture funds mature, the excuse that "it is too early to say" how successful they have been has begun to wear thin. Venture capitalists' performance can now be judged with greater accuracy and those funds which have not done well are unlikely to be able to raise further money.

There are already signs of a modest restructuring of the industry even if the long-forecast shake-out has yet to occur. Some institutional investors have decided that it does not make sense to manage small venture capital portfolios alongside their much larger quoted investments. CIN Venture Managers, the venture capital arm of the British Coal pension fund, recently added the Barclays Bank Pension Fund's small venture capital portfolio to the funds it managed for the British Rail and British Coal pension funds.

Some of the venture capital companies which opted for publicly-listed investment trust status (before limited partnerships became a tax-efficient option) have found it to be unsuitable. Newmarket Venture Capital is winding itself up and distributing its assets to shareholders. Newmarket found that its early-stage high-technology investments did not generate the dividend income it needed to pass on to shareholders so its shares were trading at a large discount to assets. However, Newmarket is hoping to launch a new fund in the form of a limited partnership.

The industry's more modest aspirations may not prove unwelcome to investors who have grown weary of the more exaggerated claims of what can be done for the companies it backs and for its investors.

"It's fair to say the industry has oversold itself in the past," comments David Bays, venture capital director of Sun Life Investment Management Services.

Reflecting their concern at trends in the venture capital industry a number of large institutional investors have established an informal club known as the Venture Investor's Circle. This acts as a forum for investors to discuss their worries about issues such as venture capital fees and a method of valuing investments.

John Brakell, venture capital manager at Postel Investment management, is concerned that the involvement of the large financial services groups in the industry creates an unwillingness to act entrepreneurially.

Venture capital executives in some of the bank-owned organisations are not given the incentives that their counterparts in independent venture capital organisations enjoy, so they lack the motivation to maximise, says Mr Brakell.

Against this backdrop of change, venture capitalists are investing in a growing range of business propositions. The large buy-outs of publicly-quoted companies have dried up, but small, conservatively financed management buy-outs still form a significant activity for many funds. Venture capitalists are also providing additional equity finance to companies which borrowed too much in the 1980s and now find their balance sheets burdened with excessive debt.

Rescue or turnaround deals are becoming more common as those venture capitalists with hands-on experience and industrial expertise apply their know-how to rescuing companies on the verge of receivership.

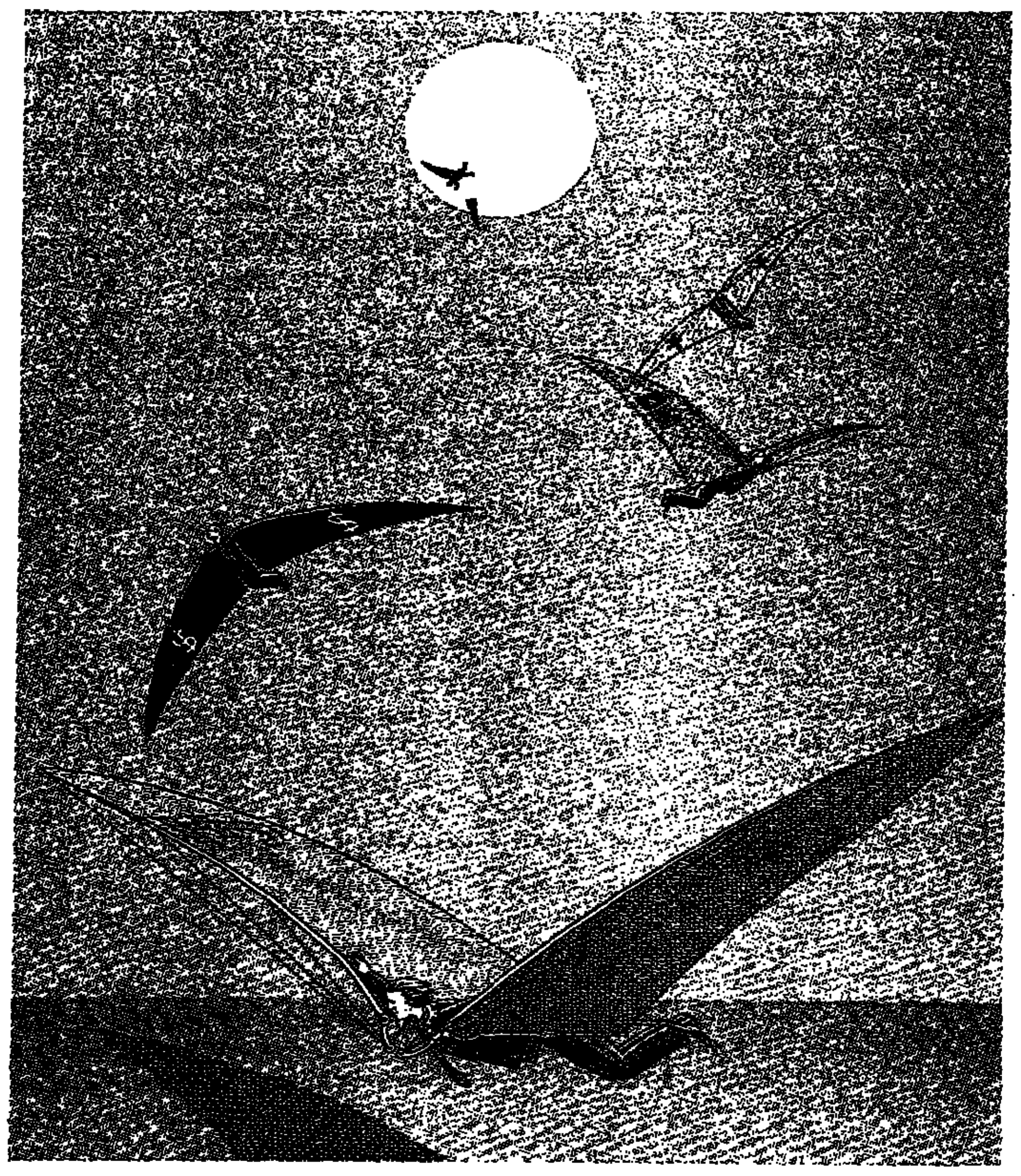
Several venture capital firms are even considering providing finance to small publicly-listed companies. Many small USM and even main market stocks find they are ignored by analysts and accorded a lowly market rating which makes it uneconomic for them to raise cash by means of a rights issue.

A number of companies in this position have been taken private over the past two to three years but institutional investors are now opposed to this because they fear managers might abuse their inside knowledge of their company's affairs. 3i, Alan Patricof Associates and Electra Kingsway are three organisations which are considering financing such businesses while allowing them to retain their public listing.

"These sorts of companies are just as suitable for our sort of finance as private companies," comments Derek Sach, a director of 3i.

"Venture capital investors can add to the management in a way which the institutional investor cannot," says Ronald Cohen, chairman of Alan Patricof Associates. "You could argue that this represents a greater contribution to the economy than backing start-ups."

The British venture capital industry has retained its ability to react to new opportunities as they occur. Many venture capitalists see the present economic downturn not as a threat, but as an opportunity for shrewd investments. But the problem of how to make a living from backing the young companies the industry originally set itself up to serve remains as intractable as ever.



IN THIS SURVEY

Editorial production: Roy Terry

Charles Batchelor examines investment decisions

A widening circle of influence

THE main providers of finance to the British venture capital industry, the UK pension funds, and to a lesser extent the large insurance companies, have begun to take a closer interest in the performance of the venture fund managers.

Acting through the Venture Investors' Circle, an informal discussion group set up in 1988, the large institutions are involved in formulating new valuation guidelines for venture capital funds (see Page 4). They are also putting pressure on venture capitalists to provide better value for their fees.

At the same time, some large institutions are reviewing the way they manage their venture capital investments. Some are bringing more of the investment decisions in-house by expanding their own investment teams while others are taking the opposite route, handing over investment decisions to outside specialists.

The most significant development in institution/venture fund manager relations is the growing role of the Venture Investors' Circle, which now has 25 members. The circle meets quarterly but has no full-time chairman or secretariat and takes a deliberately low-key approach in its dealings with the British Venture Capital Association (BVCA).

The suggestion for the creation of an organisation to represent investors came up in late 1987 when a number of institutions were attempting to sort out problems involving a venture fund manager. One of the investors said the BVCA did a good job for the venture capital fund managers but investors had no one to speak for them.

The idea was taken up by John Brakell, venture capital manager of Postel Investment Management, which handles £18bn of investments for four Post Office and British Telecom pension funds. "We are very informal," says Mr Brakell. "We produce papers and liaise with the BVCA. The circle is simply a talking shop, but a very useful one."

Mr Brakell is probably being unduly modest. The circle has already had a significant input into the BVCA's discussions on valuations. It is also compiling a list of the funds in which members are invested so that a member seeking information on how a particular venture capital manager charges for his services can compare with the experiences of others. If necessary, members who were not happy with the terms a venture capitalist was offering could make a joint approach to try to persuade him to change.

"We don't want to be seen as a pressure group handing down Diktats to the BVCA but the circle is an opportunity for everyone to become aware of the issues," comments David Bays, venture capital director of Sun Life Investment Management Services.

An important issue which is under discussion by institutional investors is the terms and conditions under which fund managers agree to make investments. Most attention has focused in the past on fees – usually 2.5 per cent of the sum invested – and the carried interest – the stake, usually 20 per cent, which the venture capitalist takes in the profits of his investments.

But Mr Brakell argues that the overall level of these charges is less important than the manner in which they are calculated. For example, a 20 per cent carried interest drawn down as realisations occur "costs" the investor 4.6 per cent of his overall return but just 3.6 per cent if the drawdown occurs after the limited partners (i.e. the institutions and other investors) have been paid.

An even bigger saving to investors can be achieved by changes in distribution policy. Funds which distribute returns at the end of the 10th year (the usual life span for many funds) cost investors 13 per cent of their return. Funds which distribute the proceeds of each realisation as it occurs to investors and the fund managers at the same time cost just 5.3 per cent, while funds which repay investors before the fund managers after each realisation cost investors 0.4 per cent.

Institutional investors are particularly keen to make venture capital fund managers achieve certain minimum rates of return before they reward themselves with a share in the profits. Some fund managers already accept that they must leap "a hurdle" before they start to earn their carried interest. As a basic minimum venture funds should be able to match the FT Actuaries' All-Share Index before they are rewarded, investors argue.

Some of the large institutions are taking their dissatisfaction with the venture funds to the point of reducing the amount of money they entrust to them and are increasing the amounts they handle in-house.

Sun Life has been strengthening its own internal management team over the past five years and increasing the number of direct investments, says Mr Bays. He recently added a third member to Sun Life's venture capital team and plans to directly invest 80 per cent of the company's annual £15m venture capital allocation. Sun Life has £40m invested in venture capital, about 1 per cent of the company's £4bn pool of discretionary funds.

Sun Life is bringing more investment in-house because it has not been impressed by the performance of some of the funds in which it invested in the past and because it believes it can handle its own investments more cheaply. "If our profits are not diluted by the venture capitalists' carried interest we should be able to make a better net return," says Mr Bays.

Postel takes the opposite view. In-house managers must be rewarded on a similar basis to managers in outside funds which can cause a problem in the salary structure of a large institution. In addition, by investing through funds an institution can spread its money more widely, says Ray Maxwell, a Postel venture capital manager.

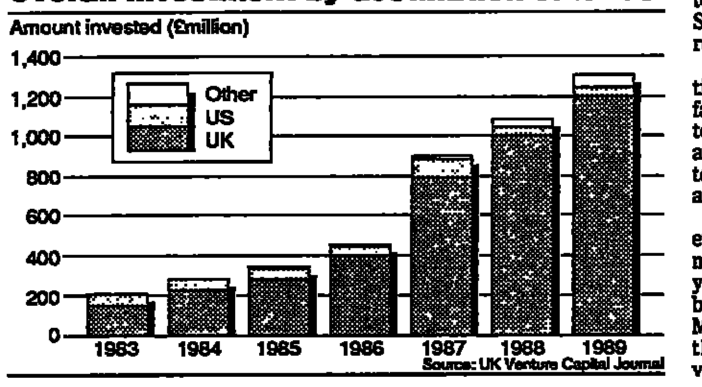
Postel is invested in 73 venture capital funds around the world which means its money is in about 2,200 companies, a far greater number than it could invest in directly. Postel has venture capital investments of about £160m or just over 1 per cent of the £14bn it has invested in equities.

Freed from the need to monitor individual investments, the Postel team devote a lot of attention to the funds in which they are invested. Fund managers are subjected to rigorous scrutiny before Postel invests and they are monitored closely to see that they are providing value for money.

Institutions which want neither to invest directly nor to deal with large numbers of funds have a third option – to hand over management of their portfolio to a single outside manager. CIN Venture Managers, the venture capital arm of the British Coal Pension Fund, has taken on the venture capital activities of both the British Rail and Barclays Bank pension funds. CIN plans to increase the amount of direct investments it makes from its £600m portfolio.

Important though they are as providers of funds to the venture capital industry the institutions have the capacity to become even bigger players in future. A recent survey carried out by Venture Economics, a venture capital consultancy, calculated UK pension funds had invested £1.5bn or just 0.6 per cent of their total assets in this area. Before they increase their spending, though, the institutions are determined to have a greater say in the writing of the rules.

Overall investment by destination of funds



Source: UK Venture Capital Journal

Khozem Merchant on the market for seed capital

Only a poor cousin

SEED capital – money to back a business idea at its earliest stage – remains the poor cousin of the venture capital family. There has been some coming together in recent years, but an invitation to the family table is still elusive.

This month it has emerged that another seed capital initiative has met with some disappointment. The European Commission's ambitious scheme to back 24 seed funds in a Europe-wide network, launched 12 months ago, is to relaunch in the new year. Mr Michael Russell, the co-ordinator for the proposed European Seed Capital Fund, said economic downturn had contributed to the initial set back. "The problem is the recession. A lot of people are dragging their heels, mostly in Britain," he says.

In the UK, Europe's most mature venture capital market, a scheme by the British Venture Capital Association to set up 12 seed funds, has commitments from potential investors but failed to convince the government to back the proposed funds' management costs.

"Whether ministers like it or not there is a recessionary wind blowing and you have got to seed new businesses and grow them," says Mr Michael Denny, chairman of BVCA. "We have until March. Otherwise our investors will withdraw and it will be another missed opportunity."

In the past 12 months there has been a fourfold increase in seed investments in Europe, from Ecu9.2m ($12.8m) in 1988 to Ecu38.7m last year, according to the European Venture Capital Association. This represents 0.9 per cent of total venture funds invested in 117 companies in Europe in 1989. Meanwhile, start-up capital throughout Europe for the same period fell to Ecu383m, down from 12.3 to 9 per cent of total venture funds raised.

In the UK, total seed capital raised in 1989 amounted to a fraction over £4m, just 0.2 per cent of the £1.6bn venture funds raised last year, according to EVCA. That was well up on the £1.1m in 1988. Total start-up capital raised in the UK last year was £116m invested in some 309 companies, both measures down on the previous year. The impact of recession combined with high interest rates is likely to be severe on the take-up of seed capital in the UK, according to the Warwick Business School, which next month publishes a report on the likely changes in the UK venture capital industry in the next five years.

Many fear that recession will make investors more risk-averse; innovation will be a casualty with the main sufferer being the small businessman.

High interest rates – and banks' tightening position on overdrafts – is the cause of the most anguished cries from seed companies. Tribotics, an Oxford-based company funded by a combination of seed capital and heavy bank overdrafts – typical of seed companies – describes as crippling its £1,000 monthly interest payments.

Mr Harry Fitzgibbons, chairman of the BVCA's seed capital committee, says: "The banks are being much more difficult. All my companies have substantially growing revenues yet all have had their overdrafts reduced."

In recent years, there has been a strong perception that the venture capital industry has been less innovative in providing seed capital than in other areas of latter-stage funding. Many people in the industry feel that early stage funding is an area that will have to be addressed.

To some extent the void has been filled by government and EC initiatives. Yet the problems encountered by some of the funds in the Commission's programme suggest that this area of investment is still short of bridging the credibility gap crucial to win more than potential investors. Of the 24 seed funds under the Commission's programme, eight are still in the process of raising sufficient funds to operate viably. They include Tay Euro Fund in Dundee, Yorkshire Acorn Fund in north-west England and Business Innovation Fund in Dublin.

The EC programme also supports seed funds in Belgium, Germany, Spain, France, Italy and the Netherlands. Its package includes subsidies for running costs, interest free loans and an information service, including seminars. The funds are expected to be self-financing within five years. "Since the launch last year the programme has been dormant. It has just taken longer than we thought to put together," says Mr Russell. The Commission is still solidly behind it, he adds.

The hiccups surrounding the Commission's initiative confirm the doubts expressed by some seed capitalists 12 months ago. Many said then it was too ambitious.

Less ambitious but equally problematic has been the BVCA's home-grown network of 12 seed funds. This, according to Mr Denny, has already won commitments from investors but is being stymied by government refusal to provide additional funding.

This latest BVCA initiative evolved from an earlier idea to sponsor two or three dedicated funds. But this was rejected after it emerged that members would, in effect, be sub-contracting their own funds to support potential competitor funds.

BVCA's response was to support the setting up of 12 regional funds in the UK. Unlike the Commission, however, it first sought to tap the market for investors and then seek government backing for the funds' management costs.

According to Mr Denny about £1.8 in government aid would trigger some £10m private sector investment. The BVCA has identified 12 seed managers for the funds; they would be expected to seek further investment.

Meanwhile, the BVCA is addressing two additional problems confronting seed capitalists: the dearth of information and credibility.

It is publishing, in co-operation with Business in the Community, a comprehensive investors' guide for prospective entrepreneurs with full details of seed, early and later stage investors. Training for seed capitalists – on the special skills required to nurture a company and investment structures – is still on hold largely because there would be too few people to take up the offer, says Mr Denny.

On the second point, the BVCA says the absence of role models – companies founded by seed funds and have gone to second-stage financing and ultimately the USM – deters potential investors.

PROFILE: Tribotics

Invitation to a Waltzer

APPARENTLY there are three areas of activity guaranteed to horrify seed capitalists: robotics, education and manufacturing. Tribotics failed on each count when it first sought seed capital.

That was with 3i, Britain's biggest venture capitalist. "We were very naive at the time and did not know the difference between venture and seed capital," says Tribotics managing director Mr Bob Vidler, a former British Leyland engineer. 3i identified what it said were the three no-go areas and Tribotics was shown the door – with an invitation to return if they could not raise funds elsewhere.

The invitation was never taken up. In February 1988, six months after Tribotics was formed to "develop a product range in cheap robotics for the education market", the company had secured funding from Henley-based Seed Capital. Seed Capital's offer was accepted just hours before the arrival for talks of another interested party, Oxford Seedcorn Capital; two years later Oxford Seedcorn Capital would play a key role in Tribotics' stage two development.

The deal with Seed Capital was the culmination of a six-month search, during which Mr Vidler, and his two co-founders, Mr John Hodges and Mr Chris Boreham, both engineers, had drawn up a business plan, visited exhibitions and scoured libraries for names of a small band of seed capitalists. Countless letters were sent, producing responses from 3i and Seed Capital, among others.

Seed Capital's investment was highly speculative given that the market for education robotic aids was untested. "I was never that keen on the products but was prepared to believe there might be a market for them. Certainly they were good innovation engineers," says Mr Lucius Cary of Seed Capital.

The total share capital at launch was £40,000; Seed Capital put in £5,000 of ordinary shares and £20,000 in preference shares. The three founders contributed £15,000 in ordinary shares. Tribotics also raised a £40,000 government-backed loan. In February 1989 Seed Capital topped up with an additional £10,000 in preference shares.

"We survived for nearly two years on that money. It was traumatic because we gradually learned the lesson that 3i had told us on the first day about the three no-go areas."

Robotics was bad news. "We went to exhibitions but we just could not sell anything. Colleges did not have money to spare. There was no market," recalled Mr Vidler.

The arrival of a new professor at Oxford University and his request for a prototype unit to analyse large DNA samples in a laboratory changed Tribotics' direction. "He asked for a prototype but we said we will do something better than a prototype. We will make something that will actually sell. And he agreed."

'We were naive and did not know the difference between venture and seed capital'

The result was Waltzer 1, an electrophoresis unit which separates large chromosome DNA. It is aimed at laboratories to aid research into human and animal genetic disorders. Sales of Waltzer 1 and various derivatives have totalled about £72,000 in the US, India, Singapore and Europe.

In August 1989 there was a second round of financing; Seed Capital increased its holding of ordinary shares to £7,000 and preferences shares to £53,000, while the founders bought £30,000 preference shares (with funds secured against their own homes). By then the three founders still controlled 70 per cent of the equity.

"The market looked good. And on the basis of the expertise and our tie-up with Oxford University we felt we had a good case and a good product." But they ran out of money and the company was close to its last waltz.

Seed Capital had reached the limit of its investment in any single company and it was agreed by both parties to seek fresh capital. So they turned to Oxford Seedcorn Capital. Tribotics' switch from robotics to biotechnology excited Oxford Seedcorn Capital's managing director Mr Antony Costley-White. "This was of interest to us. We know something about it and felt comfortable with it," says Mr Costley-White.

In spring this year, after what is described by both parties as trouble-free negotiation, Oxford Seedcorn Capital agreed to invest £90,000, divided between £12,375 in additional ordinary shares (giving it 36 per cent of equity) and the balance of £77,625 in preference shares. Seed Capital's equity holding was diluted to 20 per cent. With Oxford Seedcorn Capital's participation, the founders' long-held hope of maintaining a majority holding in had now vanished.

With Seed Capital, Tribotics was required to comply with a fairly tough financial regime. Seed Capital installed an accounting package and also arranged for an American graduate to work with the company.

Mr Costley-White has increased the tempo of the financial discipline. "We now produce weekly cash flow reports; where it has gone; where it is going and where our commitments are," said Mr Vidler. It is a tough regime and one that stretches but does not surprise Tribotics.

But it has been in marketing that both seed capitalists have encountered their greatest problems. "If they were left to their own devices they would just develop machines without fixing up distributorships – or even finding out if there is a market, says Mr Lucius Cary.

The accent on marketing has been enhanced with Mr Costley-White's arrival. The fortnightly marketing meeting often ends with a list of tasks: "cover this country, mail this, check distributors", says Mr Vidler. "Without Oxford Seedcorn Capital, we would have gone along the same route but at a slower rate." Tribotics is now on the verge of signing up a UK distributor and is in talks with European companies.

Proximity has meant the Oxford-based Mr Costley-White has taken a more active role than Mr Lucius Cary in Tribotics' daily affairs. This has not led to any differences of opinion between them over administration or direction. As seed capitalists they share common interests for Tribotics and have both been able to devote the time and effort essential to nurture their seed investment.

Khozem Merchant

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Charles Batchelor on valuing investments

New code proposed

THE British venture capital industry hopes to agree on a new set of guidelines for valuing investments later this month. The British Venture Capital Association (BVCA) has been working on a set of proposals which it will put to members at its annual conference. The proposed British code follows more than a year of discussion between venture capitalists and the large institutional investors.

The British move comes several months after a UK-led initiative led to agreement within the European Venture Capital Association (EVCA) on a set of Europe-wide valuation guidelines and at a time when the US venture capital industry is also wrestling with the issue of how to measure performance.

The EVCA guidelines are meant to provide a framework for more detailed national rules and have been incorporated into the UK proposals. None of the proposals is mandatory, however, and the national venture associations can only hope that peer pressure and market forces bring fund managers into line. After a decade of rapid growth of UK venture capital, investors have nevertheless begun to press for a more rigorous approach.

"Investors are starting to ask questions about valuations and performance," says John Brakell, venture capital manager at Postel Investment Management. "It is no longer possible for the venture capital fund managers to say: 'It is too early to say.' We are not looking for cast-iron assurances from fund managers on values but we need some indications. We can't keep going back to our trustees and saying it's too early to judge."

The question of valuations is a complex one. With most of venture capital industry's money committed to the unquoted company sector, interim valuations – those made before the investment is realised – frequently depend on judgment and a complicated system of discounts which reflect the illiquidity of unquoted shares and the performance of the investee company.

Unless the venture capital industry is able to produce an acceptable method of valuation there appears to be little doubt that the flow of funds into the sector will be reduced, at least temporarily, while investors wait for management teams to realise their existing investments. British venture capitalists are keen to avoid the controversy that has surrounded this issue in the US, where some fund managers feel the "gate-keeper" agencies, which handle venture investments for the large institutions, are attempting to impose their views on the industry.

The guidelines which have been hammered out between the British Venture Capital Association and the Venture Investors' Circle, an informal grouping of 25 large institutions with venture capital investments, are intended to make valuations more consistent. Unlike the proposed US method for making interim valuations, which sets precise discount percentages to be applied in certain circumstances, the British guidelines give greater freedom to the fund manager.

"The BVCA discussions with the Venture Investors' Circle established that their main concerns are not rigid rules but consistency, disclosure and standardisation of presentation," the BVCA says in its draft guidelines. "The important thing for sophisticated investors is to be presented with sufficient information in a digestible manner so that they can assess the competence of different managers."

The BVCA (and EVCA) guidelines establish some overall principles. For example, the basis of valuation must be disclosed and must be consistent from year to year. International accounting standards in force should be accepted. Investments should be "prudently" valued and valuations reviewed by someone independent of the fund managers.

The guidelines divide investments into three categories. They are: unquoted venture investments in immature companies which have yet to establish a pattern of profit growth; unquoted development investments in companies with a maintainable trend of sustainable profits and where an "exit," by way of flotation or sale, can be reasonably foreseen; and quoted investments which have been floated or where regular third-party share transactions take place.

Unquoted venture investments, for example, should be valued at cost rather than at market value unless an outside investor has bought a material number of shares or the investee company is making significant profits.

Unquoted development investments, by contrast, may be revalued with reference to open market values, though this would be inappropriate in the period immediately after the investment has been made.

Specific problems identified by the joint working party established by the BVCA and the Venture Investors' Circle included: how to value highly leveraged investments; the level of discount on market price/earnings ratios to be used in valuing development capital investments; and how to account for the various options and ratchets which can increase or reduce the fund manager's equity stake.

Highly leveraged investments should normally be valued at, or close to, cost, the working group recommended. On the question of discounts, it suggested a range of from 10 to 35 per cent depending on how close the investee company was to "exit".

The extent to which fund managers should disclose the performance of individual companies in their portfolios to investors is also capable of raising the blood pressure of both sides of the industry. Fund managers are concerned that information about their portfolio companies might be passed to the companies' competitors. They also worry that disclosing their valuations would restrict room for manoeuvre if they subsequently tried to sell the company.

Ian Hawkins, a partner of Phildrew Ventures, comments: "There would be a total reluctance to provide detailed background information as this would undermine any negotiations for the sale of companies."

At present there is little consistency in disclosure standards. Some fund managers disclose individual valuations to investors but others do not. Some fund managers value their portfolio at cost but do not reveal the date when they made the investment. Others do not make clear whether valuations are based on equivalent quoted-company p/e ratios or on third-party transactions.

Jonathan Thornton, managing director of Close Investment Management and chairman of the BVCA committee which drew up the guidelines, puts a humorous gloss on the issue. "What investors are saying is: 'If all your valuations are your own estimates based on Japanese stock market p/e ratios, then please tell us'," he says. But both sides, investors and fund managers, are in no doubts as to how important the issue of valuations is to the venture capital industry's future.

David Lawson reviews the BES market

Teamwork essential

THE property crash finally undermined the old adage that nothing is as safe as bricks and mortar. Trading companies must be feeling quietly gleeful as prices subside, confident that business expansion scheme (BES) investors who deserted them in droves to become landlords will now scurry back. But they may be disappointed.

Property continues to take the lion's share of funding because it remains a low-risk, asset-backed tax shelter. And the new landlords can spread costs over £5m worth of investment rather than the puny £750,000 limit for trading companies. It is, therefore, unsurprising that for every £1 going into trading company BES issues last year, three were invested in assured tenancies. Falling property prices have actually stimulated some "vulture" funds such as Johnson Fry's Predator BES, which scavenge property at hefty discounts from distressed builders, making projected price increases over the next five years even more attractive. This is why more than £30m was invested in property during the first half of this tax year compared with only £1.5m in general issues.

However, non-property companies have not been totally forgotten. Some BES investors are careful not to put all their eggs in one basket. They also like to dabble in higher-risk areas in the hope of making bigger profits. "They know that they will not make the 500 per cent returns in residential that they can with new trading companies," says Mr Charles Fry, who has handled more than £200m worth of BES issues since the mid-1980s.

Businesses involved in hotels, shipping and nursing homes were among the chosen few to receive around £5m from Johnson Fry last year. Among the eight trading companies backed by Lazard Development Capital's 12th General BES Fund were a Manchester-based pie producer and a group of Lichfield teachers offering childcare facilities. Mr Tony Denham, managing director, says he had no trouble meeting the fund's target of £3.85m, but he admits that intermediaries tend to favour assured tenancy schemes. "They see them as a way of buying property at a 40 per cent discount. They tell clients it would be foolish to go for anything else."

Trading companies lost most ground when the government decided to use BES as a way of bolstering private housing just over two years ago. Issue limits were cut to £500,000 – later raised to £750,000 – while residential schemes were given a £5m ceiling. In 1987/88 some £180m went into BES issues; the rule changes doubled this figure to £360m the following year, with only £30m of this aimed at non-property companies.

But dabbling in high-risk enterprise has not lost its attraction. Even though the global total shrank to £157m last year the amount raised by general issues has remained remarkably stable, according to Mr Tim Villiers of the BES Association. He expects the same pattern to emerge this year, with something like £25m to £30m ending up with trading companies after another batch of schemes is launched. Issues are normally timed for the beginning of a new tax year or the end of an old one, so the new year will indicate how keen intermediaries are to place clients' money outside property.

Property still takes the lion's share of funding because it remains a low-risk tax shelter

These figures also understate the total amounts available to entrepreneurs, as they only cover public launches. Many schemes are too small to merit the costs of issuing prospectuses, and are carried out privately. Mr Villiers estimates this shadow area could contribute another £30m to £50m this year, with about half going to trading companies.

He is naturally keen to stress the advantages of BES issues over other capital sources. "Companies are not driven as hard in their early years as those seeded by venture capital, as shareholders do not expect immediate dividends. Nor do they live in the shadow of a bank manager who could call in their loans at any time."

But the fact that money is still available will not help most entrepreneurs. "Of every 100 applicants we get, around 30 to 40 are definite non-starters," says Mr Fry. Once these obvious time-wasters have been discarded and the more promising ones tested, Mr Denham figures that fewer than 5 per cent of the original bunch are left. Many will stumble early because they fail to meet strict qualification rules for BES status – which is understandable considering that these rules are so complex that even experienced advisers often refuse to get involved.

Some of the simpler criteria are that non-property companies must be unquoted, mainly UK-based and not reliant on heavy asset backing or financial services. Once out of these woods, applicants have to pass an even sterner test from BES fund managers. These may be happy to take on a sprinkling of high-risk operations but still try to make the odds as favourable as possible for investors.

Size is one important factor. Issues below £500,000 are usually not worth the effort and administrative costs, says Mr Fry. These are usually done privately. Starts-ups are also filtered out, as are people with brilliant ideas or skills but no business ability and projects which offer no prospect for investors taking out their benefits after the statutory four-year limit for tax breaks. Management buy-outs which prove to be merely disguised job-preservation projects should also stay away, adds Mr Denham.

A chef, for instance, looking for money to open a restaurant, should get a financial partner and an earnings record before bothering to seek BES money. "One of the major errors people make is to feel that because they are good at something, they can also run a business," says Mr Fry. Hopefuls must offer a dedicated team with a balance of skills and a good business idea which is not being already carried out more efficiently by others.

The ideal would be a few dedicated people with different skills. That way they would not tread on each others toes.

"We have no prejudice about industrial businesses. In fact, many of Lazard's people come from industry," says Mr Denham. He has a personal liking for distribution businesses because they have performed well in the past. But when it comes to the crunch any manager will insist there are five important factors involved in choosing an investment. "They are people, people, people, product and product," he says. In other words, a good idea is useless without a good team.

MANAGEMENT BUY-OUTS AND BUY-INS

Small expansion

THE casual observer could be forgiven for thinking that management buy-outs had had their day. Some of the most spectacular of the recent deals have run into difficulties and the banks have backed off from the generous funding packages available last year.

However, first appearances are deceptive. Highly-leveraged deals have fallen out of favour and the large investing institutions are unwilling to back buy-outs of publicly-listed companies but the number of small, conservatively-financed deals is on the increase.

The number of buy-out deals completed in the first six months of 1990 rose 5 per cent to 271, according to the Nottingham University Centre for Management Buy-Out Research. Taking just the second quarter of 1990 the number of buy-outs rose to their highest quarterly level – 119.

The absence of larger deals depressed the value of completed deals, however, by 24 per cent to £1.71bn compared with the same period in 1989. The average size of all buy-outs fell to just £6.3m in the first half of the year from £14.8m in the whole of 1989 while the average size of buy-ins – where outside managers take over the running of a company – fell to £5.1m from £24.9m. Even the 1989 averages are a far cry from the deals counted in hundreds of millions of pounds which have captured the headlines.

The terms under which banks will back deals have undergone a radical change. Banks are now rarely willing to consider a debt-to-equity ratio of more than 2:1 compared with the average level in 1989 of 5.3:1 (3.4:1 if the exceptional Gateway deal is excluded). The bankers look more closely at the extent to which profits cover interest charges. Before the refinancings of MFI and Magnet and the collapse of Lowndes Queensway the banks accepted cover of 1.1 to 1.3 times earnings but they now insist that profits are double the interest charge.

In spite of these restrictions the continuing high levels of activity are proof of the value of buy-outs and buy-ins as a means of restructuring companies. In the present period of economic downturn there is increased pressure on large corporations to dispose of poorly-performing operations by means of a buy-out or buy-in.

Buy-outs have proved a useful means of rescuing companies or parts of companies from receivership. Since receivers are unable to provide the performance warranties a purchaser would normally expect from a vendor the management team, with a detailed knowledge of the company, is often very well placed to make a competitive bid. Several parts of the failed Coloroll home furnishings group have been disposed of through buy-outs.

But just as the recession has created more opportunities for buy-outs it has also made life more difficult for the businesses which have been bought out. Twenty-three buy-outs went into receivership in the first half of 1990 compared with 20 in 1989, according to the Centre for Management Buy-Out Research.

Buy-outs have proved a useful means of rescuing companies from receivership

But do buy-outs make a long-term contribution to the economy or are they just a way of reshuffling assets from which management teams can make a fast buck? This question has been concerning the industry since the publication last year by Warwick University of a report showing that buy-outs began to under-perform their industry sector after their third year.

A survey published earlier this month by 3i, the largest UK backer of buy-outs by number, came to a different, more positive conclusion. A study of the 1,000 buy-outs backed by 3i over the past decade concluded that after an initial drop in the average rates of return from bought-out companies returns then rose and exceeded returns from all companies backed by 3i. This improvement continued at least until year four.

Total employment provided by all UK buy-outs amounted to about 600,000 and their combined turnover was £25bn, 3i said. Far from selling out quickly, managers of 91 per cent of 3i's buy-outs were still independent. Nor did buy-out managers cut back investments as has been suggested. Most made no change to investment policies but 36 per cent increased spending in the first year.

Employment levels had stayed the same or increased among 78 per cent of the companies which replied to the 3i questionnaire. The number of companies exporting rose from 63 to 70 per cent.

Profits increased substantially at 37 per cent of the buy-outs while 27 per cent made moderate increases and 16 per cent experienced a fall. A really long-term study of a significant number of buy-outs has yet to be carried out but their role as a moderately painless method of changing ownership seems established.

Some financial groups which back buy-outs are even confident that buy-outs of publicly-listed companies will once again become feasible. Mr Robert Smith, chairman and chief executive of Morgan Grenfell Development Capital, and Mr Roger Brooke, chief executive of Candover Investments, speaking at a Financial Times Buy-Out Conference last month, both forecast a revival of this sort of deal.

However, other venture capitalists believe that the future lies in funding publicly-quoted companies without taking them private. They are working on plans to provide unlisted capital in the form of redeemable preference shares to smaller Unlisted Securities Market and full stock market companies which are unable to raise funds by rights issues.

However, the venture capital industry does appear to agree that prospects for an increase in management buy-ins are even better than for buy-outs. Venture capitalists are happy with this development because finding a buy-in team and matching it with a target company allows them a greater role in shaping the deal.

Buy-ins do, however, involve a higher risk because the new managers will be less familiar with the business than the existing management team and may encounter less co-operation from the people who remain. Buy-ins are also more difficult to arrange because they involve careful timing. If a suitable manager is kept waiting too long for a target company he may well find an alternative job.

Despite these difficulties the numbers of buy-outs and buy-ins seems set to go on rising. A total of 2,992 deals were completed in the UK between 1980-89 while in France 490 deals were done, according to the Centre for Management Buy-Out Research.

Charles Batchelor

PROFILE: Periquito Hotels

A flying start for the little parrot

PERIQUITO Hotels is the unusual name of a management start-up venture which has this year raised £27m as the first stage of a five-year scheme to invest £100m in creating a national chain of three-star hotels.

How do executives go about raising such a large amount of money, at a time of high interest rates and growing economic gloom?

Mr Peter Gee, Periquito's managing director, is disarmingly frank: "I didn't know a lot about it – basically I just knocked on doors. I had a list of about a dozen sources of capital."

Mr Gee had been set on this fund-raising trail back in May, 1988, when Bass, Britain's largest brewer, bought the international side of Holiday Inns, for which he was a vice-president.

When Bass proposed shifting headquarters staff to Brussels, Mr Gee decided that the time had arrived to move on – as did fellow executives Mr Meinhard Huck and Ms Pamella Carvell.

Mr Gee started talking to recruitment agencies. It was a headhunter who introduced him to the venture capitalists, Electra Investment Trust, who finally came up trumps at the beginning of last year.

The idea of the former Holiday Inns management team was to build a chain of hotels focusing on the middle-market, business customer – an area they felt the bigger group had started to neglect with their growing emphasis on either luxury hotels or budget outlets.

Mr Rowan Gormley of Electra said: "Our business is to provide equity to back quality management teams. We took a number of references – we cast the net as widely as possible.

It is important to form a clear opinion of people with whom we could be working closely for five to seven years. We quickly decided that they were the right sort of people, if we did want to get involved in the hotels business.

Electra then took a detailed look at the team's business plan. Mr Gormley said: "We employed marketing consultants, because we have no special knowledge of the hotels industry. Their verdict was positive."

Electra also decided at an early stage that the deal was too big to do on its own, so Schroder Ventures was brought in at an early stage. Mr Stewart Binnie of Schroder Ventures sits on the Periquito board, as does Mr Gormley.

The investment envisaged was £100m over five years. The financial package agreed broke that down into five one-year periods. In the first year about £27m was raised, with banks putting up two thirds in the form of debt and equity providing the rest.

Of the equity, Electra put up 49 per cent, Schroder Ventures 30 per cent and Allied Irish Development Capital Investment Bank – which was brought in at the later stages of the process – 21 per cent.

The management team put in what for each of them was a significant amount in exchange for their joint 15 per cent share of Periquito's equity, which will be ratcheted up to 25 per cent, depending on performance.

Of the debt, British Linen put up 30 per cent and its parent Bank of Scotland 70 per cent.

British Linen was one of the first banks Mr Gee met, because he knew the people from his time at Holiday Inns.

It was not the only time Mr Gee was to call on personal contacts: interior designers and marketing consultants with whom he had also worked at Holiday Inns contributed their services free to the Periquito business plan and presentations, on the basis they would be commissioned if the deal came through.

The equity came through in the spring of this year and the

Peter Gee: "basically, I just knocked on doors"

team has so far bought four hotels – in Kettering, Oldham, Barnsley and Tunbridge Wells – with more in the pipeline. Periquito (which means small parrot) aims to give them all a strong brand image, with bright colours and a lively atmosphere.

Mr Gormley says: "Its reasonably early days, but progress is looking good. The speed with which other funds will be drawn down will depend on state of market – if hotel prices remain low, it may become more front-end loaded."

Mr Gee certainly hopes to secure cash by spring to take advantage of depressed hotel prices.

Mr Gormley points out that a drop in hotel prices was not a part of their original considerations: "The things you worry about tend to change as the deal is put together. One concern in early stages of due diligence was availability of hotels – curious, because you can now buy almost any hotel. The price of hotels is cyclical, so our timing might have been better than we first envisaged."

Mr Gormley also points out that although this deal was not primarily a property play, the presence of solid assets did encourage the banks to support a high debt-to-equity ratio.

One warning Mr Gee does have for fellow executives considering the start-up route relates to timing: "I left Holiday Inns in May, 1989, and signed the contract with Electra in December of that year. During that time I incurred £50,000 in legal costs. The whole thing was a lot slower than I expected – at times I felt very exposed."

Andrew Bolger

Charles Batchelor's guide for company managers on how to raise venture capital

Getting down to fundamentals

AT FIRST sight, raising venture capital should present no problems for the ambitious entrepreneur. Funds are available in unprecedented amounts and with the highly-leveraged buy-outs of publicly-listed companies now out of favour there is more money around to back serious business propositions.

Yet venture capitalists still complain of a shortage of really attractive proposals and people like Clive Deadman, corporate finance director of accountants Rickard & Co, estimate that 90 per cent of the money and effort that entrepreneurs put into raising venture finance is wasted.

"In spite of reading several business plans each evening, occasionally a week might pass before I came across a proposal that ultimately received the funds required," says Mr Deadman. "I estimate that several man-years and enormous professional costs had been spent on preparing the proposals I would reject during the course of a week."

Stoy Hayward, another accountancy firm, estimates that five out of every 10 proposals it receives do not have the basis for a business likely to provide satisfactory venture capital returns and is rejected. A further three need further work before they can be passed on to a venture capitalist. Of the three, one might eventually receive backing.

Of the remaining two, one would look reasonable but the managers would have let themselves down by touting it round venture capitalists before taking professional advice while the final one could be worked up and passed on to a venture capitalist with a fair probability of success. Overall, therefore, Stoy Hayward estimates that between 10 and 20 per cent of proposals it sees would be successful in raising money.

So how should the would-be entrepreneur go about approaching venture capitalists? A properly-presented business plan is important but before a convincing plan can be prepared the fundamentals must be correct.

Most important is the management. Venture capitalists never tire of repeating that they invest in people – managers – and not in businesses.

They will be looking for experience and qualities such as commercial judgment, dynamism and leadership. They will usually want people with more than just a specialist knowledge of their subject or enthusiasm for their product.

One venture capitalist complains of seeing streams of enthusiastic engineers who believe that marketing and financial skills are optional

Venture capitalists never tire of repeating that they invest in people and not in businesses

extras in building a business. Proposals based on a single product are also unlikely to succeed: venture capitalists will want a technology or an idea which can be used to build a long-term business.

Although the venture capitalist will normally put up most of the finance to get a business off the ground he will expect the managers to demonstrate their commitment by making a significant personal investment, advises Dermot Mathias, corporate finance partner at Stoy Hayward. Too many entrepreneurs expect the venture capitalist to share the risks while the managers walk off with the rewards.

Second, the business itself must be capable of producing growth. The equity investor will make his return on the increase in the capital value of the business rather than just from dividends.

It is important therefore that the entrepreneur highlights in his business plan the factors which will produce growth. What, in the marketing jargon, is the unique selling point of the proposal? The venture capitalist will also want to know the trends of the market in which the business will be operating and the strength of the likely competition.

To compensate for the risks in making minority investments in unquoted companies, venture capitalists expect to make very high returns. Many venture capital funds aim for an overall rate of return of 30 to 40 per cent though they may expect even higher returns from individual investments. Start-up or high-technolgy investments may be expected to show a return of anything from 60 to 80 per cent.

The entrepreneur should discuss with the venture capitalist what sort of return he is seeking because this may provide the grounds for persuading him to improve the terms of his offer, suggests Mr Mathias.

Finally, the entrepreneur may improve the attractiveness of his proposal if he has thought about how the venture capitalist will "exit" from his investment. Not all investors plan ahead for their exit but most will want an idea of how they will get their money out in three, five or seven years.

Entrepreneurs tend to think in terms of a public flotation when considering the future of their business but trade sales – a sale to a corporate purchaser – are more common and likely to remain so in the present economic climate. Alternatively, the managers might refinance the deal, with the same or with another investor, or buy out the venture capitalist.

Most of these considerations will be dealt with in the business plan which the entrepreneur presents to the venture capitalist. This suggests it will be a lengthy document. It is here, though, that the entrepreneur needs to develop or display his drafting skills.

Few venture capitalists have the time to read through a business plan of several hundred pages. A short, say two-page, summary must be provided to wet the investor's appetite. Only if this looks interesting will he want to go on to the detail.

The entrepreneur must also ensure that the plan is the work of himself and his team, even if he uses an accountant or another adviser to help him with the figures. A business plan which has been drawn up solely by an accountant is almost certain to be rejected.

Nor should the entrepreneur rely on a standard computer software programme to churn out the numbers. "The advent of clever computer software has to a degree caused business planning to become a mechanical function," Michael Denny, executive chairman of Northern Venture Managers, a Newcastle-upon-Tyne-based venture capital company, warned recently.

"Too often those charged with the task of developing a business plan merely add 10 or 20 per cent to annual sales and assume a gradual increase in the gross margin," he told a

A business plan which has been drawn up solely by an accountant is almost certain to be rejected

government-sponsored conference for growing businesses. "Overheads merely increase in line with inflation (which is always understated). Not surprisingly, the corporate financiers always arrive at some wonderfully profitable five-year forecast!" The moral is: business plans must keep in touch with reality.

Advisers must be chosen carefully, preferably from organisations with previous experience in this field, venture capitalists warn. As in other areas of business it is best to take the advice of other entrepreneurs who have successfully raised capital.

VENTURE CAPITAL 6

Global viewpoint: FT writers in New York, Frankfurt, Tokyo and Stockholm investigate the future of the industry around the world

Wind of uncertainty rises

United States

A CHILL wind is blowing through the US venture capital industry as recessionary fears and the uncertainties of the Gulf crisis reinforce the much more cautious attitude which has been growing among potential investors in recent years.

New venture capital investment in the US has been slowly declining since 1987 and the process seems to have accelerated during the past few months as the American economy teeters on the brink of a recession and as banks tighten their credit criteria.

"There is a liquidity problem which is going to cause some investments which are doing as well as expected to fail," says the head of one large pool of venture capital finance.

Last year venture capitalists invested some \$3.3bn in 1,355 companies, but that was 10 per cent below the \$3.7bn total invested in 1,472 companies in 1988 and 15 per cent down on the record \$3.9bn of 1987, according to Venture Economics, a Massachusetts-based information service.

The waning enthusiasm is a far cry from the early 1980s when venture capital expanded quickly on the back of a high-technology and stock-market boom, which reaped very rich rewards for early funds which were able to see their companies through to flotation. Annual yields were as high as 50 per cent.

The surge was also helped by a lowering of the tax on long-term capital gains and the easing of a regulation that had kept pension funds out of the sector.

The businessman with a bright idea is going to have to look to a wider range of sources for finance

But that very success produced a rush of money into the industry and led to investments at excessively generous prices in high-technology sectors which were already crowded. Many start-ups failed, investment returns gradually assumed more normal patterns, and then the 1987 stock market crash made investors much more cautious. Numerous large banks and insurance companies began to sell off their venture capital management businesses.

At the same time, the composition of investment portfolios has been undergoing some big changes. In the second half of the 1980s, venture capital funds rushed to invest in leveraged buy-outs because they seemed to offer not only extremely high returns but also a much shorter time-scale in which to realise them than the many years it takes a start-up investment to come to fruition.

But the collapse of the junk bond market late last year and the failure of some high profile leveraged deals has meant the near death of that market, sending venture capital funds back to their roots in search of investment opportunities. In 1989, for example, their investments in LBOs dropped 31 per cent to \$674m, according to Venture Economics, while investment expanded in two areas – seed financing, which is usually provided to prove an idea, and expansion financing.

The spread of investment between sectors has also been shifting, with the electronics industry losing favour. Electronics and telephone and data communications still accounted for some \$1.3bn of new investment last year – nearly 40 per cent of the total, yet most categories saw a decline, with computer hardware suffering a particularly steep 18 per cent drop. By contrast, medical/healthcare, now one of the top magnets for new money, saw a 9.3 per cent gain.

Nevertheless, there is still a reluctance on the part of many funds to invest in start-up businesses, since they prefer to put their money into the later stages of a company's development, when it has much more chance of surviving. Funds are also anxious to continue supporting their existing portfolio with follow-on financings.

These tendencies are bound to increase during a recession. For while start-ups can take five to seven years to reach maturity, an investor in a more mature company can hope to reap a return in about three years.

All this means that the businessman with a bright idea is going to have to look to a wider range of start-up finance sources, and put together a patchwork combining a number of them. The sources include wealthy individual investors, known as "angels", who already provide a far greater volume of funds to emerging US businesses than venture capital funds. And these days the angels tend not to be passive investors, with little knowledge of business, but experienced executives whose capital comes from building their own companies. This can be important, since they can fill the gap of the venture fund management in offering advice to the fledgling entrepreneur.

Another significant source of money – again outstripping the pools committed by funds – are large companies, both US and foreign, seeking to gain a technical edge or new markets for their products.

But all these sources are likely to be constrained over the next year or two, with the US economic outlook so uncertain. Pessimists argue that it may take the industry five years to recover the ground now being lost, and along the way a significant number of the 600-plus venture capital firms trying to raise finance in the US will have to shut their doors.

Martin Dickson

Eyes are fixed on the impoverished east

IT MIGHT not seem the most enticing of destinations for venture capital, but the struggling east German economy is gradually being introduced to the concept at a time when the survival of a large part of its industry is open to doubt.

Of course, this is not quite venture capital as it is known in the west, especially in Britain and the US. It is, as Mr André de Sike, a director of Cologne-based Genes Venture Services, says, more of a hybrid version, with the introduction of management (especially marketing) talent every bit as important as the provision of capital, if not more so.

To back up its belief that the impoverished east German economy could benefit from an infusion of venture capital, however tiny in relation to its total needs, Genes is launching a new fund called Euroventures United Germany with a planned investment volume of around DM100m (\$67m). Like the other Euroventures funds – there are 15 so far, with an investment volume of DM520m – this one will include institutional and industrial investors from Germany, Europe, and the US. Genes advises two existing German funds in the Euroventures network.

Genes' commitment to the new states of east Germany is tempered by caution. The new fund will cover the whole country not just the five new states which joined west Germany in October. About a quarter of the fund will be invested in foreign companies which want a closer involvement with the German market. Of the remaining three-quarters, roughly 30 per cent will go towards direct investment in east Germany and the other 70 per cent to west Germany. Much of the west German investment, however, will also be east German-oriented, especially through joint ventures.

This allocation corresponds very roughly to the potential contribution that east Germany should make to the national economy, once its present tribulations have been overcome. East Germany has an economy which is only about a tenth of the size of bustling west Germany's and it has yet to develop a proper entrepreneurial culture. But its population is about a quarter of west Germany's and the ultimate growth prospects are considerable. At present, however, no-one knows when the turnaround from collapse to recovery will occur, some optimists

Germany

say early next year.

At this stage, Euroventures is looking at around 10 possible projects in east Germany, including management buy-outs. These include industrial, trading, and service companies. Mr Helmut Hoff, another Genes director, cites the case of one electronic components manufacturer, whose sales have collapsed since the east German economy was thrown open to competition with the overthrow of the Stalinist system and the coming of the D-Mark. But in Genes' view, its technical standards are high and it operates in a specialist area with high potential.

This is one company which needs both money and management. But because its financial situation needs close analysis and its previous sales and cost basis has disappeared, an MBO cannot be structured on the basis of projected cash flow to service a high proportion of debt. Western expertise will be needed to enable the company to survive in the harsh new environment in which east German industry now finds itself. A partial ownership role is also foreseen for local managers, who can obtain bank loans at favourable terms as part of the finance available from west Germany for the rebuilding of the economy in the east.

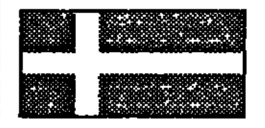
Euroventures' new German fund will have to negotiate with the Treuhand, the agency in charge of privatising, restructuring, or closing around 8,000 east German companies. Many of the operations into which venture capital could usefully be channelled have been parts of big and unwieldy groups which took their orders from the central planners and had an astonishingly high level of vertical integration. Hence the need for both money to finance their new start in a competitive, capitalist environment and for managers to provide the experience and flexible thinking which is so sorely lacking.

"East Germany has an overwhelming need for capital to help support companies being privatised," says Mr Klaus Nathusius, the founder of Genes. "Equity capital is seen as the blessing of the free market economy." Unlike west Germany, the country's east has no solid layer of small- and medium-sized companies (known as the *Mittelstand*) to propel the processes of innovation and growth. This now has to be built up.

The Genes' directors also hope to offer finance to foreign companies wanting to become involved in east Germany. "A lot of foreign companies are a bit frightened about entering this new German market," feels Mr de Sike. "We will try to draw them in, acting as a catalyst." To strengthen its position, Genes has opened a full office in Potsdam near Berlin and is also represented in Magdeburg and Gera.

Andrew Fisher

Process of consolidation



Sweden

SWEDEN'S venture capital industry is less than a decade old, but it has undergone significant changes during this short period. "The development of the venture capital market in Sweden has passed through three stages: the optimistic, the pessimistic and now the realistic," says Mr Helge Herzog, vice-chairman of the Swedish Venture Capital Association and a senior researcher at the Swedish National Industrial Board.

The introduction of an over-the-counter market in 1982 triggered the establishment of more than 20 private venture capital firms during the mid-1980s. But most of these companies had limited capital resources of only SKr10m (\$1.8m) to SKr20m, and they concentrated their activity on "start-up" companies, where the return on their investment was lengthy and risky.

Running short of capital, many of the early venture capital companies have disappeared, either closing down or merging with other firms. Others developed into investment and development companies, favouring long-term majority ownership to strengthen management control and protect their investments.

This coincided with the appearance of new and financially-stronger venture capital firms, owned by large corporations and institutional investors such as insurance companies, which now dominate the market. The process of consolidation is continuing and only two new venture capital companies have been started in the past year.

In addition, the Swedish state is a key player in providing risk capital. Government-affiliated sources of investment include the national pension insurance fund, the wage earners' funds, the regional development funds, the small company fund and the state-controlled Nordbanken. Besides funnelling direct investments to unlisted companies, the state is also the single largest investor in venture capital companies.

The state's involvement in venture capital is an outgrowth of its efforts in the 1970s to create new jobs for workers made redundant by collapsing shipbuilding and steel industries through establishing regional development funds to provide capital to new small businesses.

The ownership of the 15 main Swedish venture capital companies reflects the involvement of both private and state interests in the market. Euroventures Nordica, one of the largest firms, is backed by a consortium of corporations from the Nordic region.

The main shareholders in Four Seasons Venture Capital, another leading firm, include the national pension fund as well as the SPP pension insurance fund and Alfa-Laval, the Swedish food processing equipment manufacturer.

The Procordia pharmaceutical and food group, whose ownership is split between the state and the Swedish vehicle group Volvo, also has its own venture capital subsidiary, Procordia Nova.

The capital assets held by venture capital companies amount to an estimated SKr1.5bn, with SKr900m now invested in 190 companies with an average investment of SKr5m in each, double the amount provided in the mid-1980s.

The state's direct ownership in 120 unlisted companies, with capital assets of SKr2.2bn and investments of SKr1.9bn, still dwarf those of the venture capital industry, although only 3 per cent of the investment portfolio of the national pension fund and the wage earners' funds is earmarked for this sector.

While the state's average investment in an unlisted company is three times higher than the average sum provided by venture capital firms, it normally prefers to play a hands-off role in terms of offering management guidance.

The state's role in providing investment to unlisted companies is increasing, with its emphasis changing to acquiring a majority or sole ownership in them rather than a temporary minority interest.

The Swedish parliament, for example, recently approved the establishment of a SKr1.8bn regional investment fund to pursue such a policy over the next five years. There is also a growing preference by many of today's venture capital firms to acquire a long-term majority ownership in their investment targets, which means an abandonment of their original business concept.

The involvement of the state is an outgrowth of its efforts in the 1970s to create new jobs for workers made redundant

Both venture capital firms and the state-affiliated funds also share similar goals in investing in high-technology companies, primarily in the areas of electronics, computerisation, medicine and communications. Although the profitability of companies attracting venture capital is low, they have a stronger capital base and better solvency ratio than the average Swedish firm of comparable size.

But new and young companies are having increasing difficulties in attracting venture capital. "The market is becoming risk adverse," says Mr Herzog. While venture capital firms in the mid-1980s placed half of their investments in companies less than three years old, the percentage has fallen to a quarter. Companies seven years or older now account for nearly half of venture capital portfolios. This reflects not only a more cautious investment strategy, but also a slowdown in the growth of new investments.

Moreover, venture capital firms have switched their attention from new companies to management buyouts, which were relatively rare in Sweden until recently. Two rival London-based MBO funds have been established by Sweden's leading banks and insurance companies during the past year.

Mr Herzog predicts that the development of the Swedish venture capital market will follow international trends. The consolidation of venture capital firms will continue, with banks possibly being allowed by the government to acquire stakes in them. New fledgling companies will continue to face a capital shortage as both venture capital firms and the state become more conservative in their investment decisions, despite an expected increase in syndication.

John Burton

Banks have entered the fray with a fury

THE only problem in describing the venture capital market in Japan is that, in effect, it may not actually exist.

Investing in high-risk start-up companies, as is common practice in the US and UK, is extremely rare in a corporate culture that has always shunned the lone entrepreneur.

"I wouldn't call it venture capital at all in the broadest definition," says David Wilson, senior managing director at 3iBJ Ltd, a joint venture between the UK-based 3i (Investors in Industry) and the Industrial Bank of Japan. "It's more like a pre-flotation placing market."

Indeed, venture capital in Japan is primarily concerned with finding growing, yet mature companies with the potential to be listed publicly. Rather than taking large equity positions or an active role in the management of the firm, Japanese venture capitalists basically engage in "mezzanine" finance with the hope of realising future profits through flotations and underwriting. "It's no accident many venture capital firms are subsidiaries of securities houses," adds Mr Wilson.

When Japan's venture capital "boom" started in the 1960s, most venture capital firms were subsidiaries of Japanese securities houses.

Recently, however, banks have entered the fray with a fury, partly to develop new corporate clients, but more importantly, to stem the loss of additional business as Japanese companies increasingly turn to equity financing.

More than 100 venture capital companies are now operating in Japan, including numerous subsidiaries of banks prohibited by Japan's securities laws from underwriting securities.

JAFCO, a subsidiary of Nomura Securities, is Japan's largest venture capital undertaking, with investments in more than 800 companies. Of these, 144 have gone public, bringing Nomura an average return of 700 per cent for those that succeed.

In general, however, the rate of return of Japanese venture capital funds has usually been about 40 per cent lower than that of US funds, primarily because the inherently riskier nature of US venture capital leads to higher returns, but also more failures.

Since Japanese investors usually spurn risky start-up companies, only about 5 per cent of Japanese companies receiving venture capital ultimately fail, far less than in the US or UK.

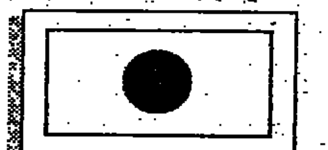
Acquiring a public listing remains the main goal of Japanese companies accepting venture capital.

"Going public enhances a company's reputation," says Chiaki Kanada, director of Jardine Management, Jardine Fleming's venture capital subsidiary. "It makes it much easier to get more financing."

More important, at a time of increasing labour shortages, going public makes it much easier to attract new workers, most of whom view working for small companies as undesirable, even from the standpoint of hurting their marriage prospects.

"Once companies are listed they are considered big and stable," says Mr Kanada. "It means all the difference in attracting new workers."

Although Japan's anti-monopoly law prohibits venture capital companies from directly placing staff, many



Japan

venture undertakings have entered into both the informal and formal job placement business. JAFCO has gone so far as to establish JAFCO Brains, a consulting and personnel services subsidiary.

The traditional low regard with which most companies viewed the over-the-counter (OTC) market is also changing. Although many companies still regard the OTC as only a holding stage before they move to the Tokyo Stock Exchange, many new companies are viewing the market more favourably.

Promising computer and software companies, such as Ascii Computer, Fuji Software, and Japan Systems Development, have all recently been brought to the market successfully.

Most analysts predict the market, and venture capital, will expand markedly when trading on the OTC is fully automated in 1991. JAFCO expects more than 5,000 new flotations by the end of the century.

Yet in spite of the change in attitude, venture capital continues to play a minor role in Japan.

Even today the number of new firms formed in the US is 10 times greater than in Japan, resulting in less of a need for the type of venture capital financing found in the US.

Indeed, the roughly \$2.3bn venture capital market in Japan is dwarfed by the \$30bn invested by venture capitalists in the US.

Moreover, there are still only about 300 companies on Japan's OTC market, compared to more than 4,500 issues traded by the National Association of Securities Dealers' Automated Quotations (NASDAQ) in the US.

"Japan's capital markets haven't advanced to the point of advanced markets like the US and the UK," admits Sadayoshi Hayashi, a director at JAFCO. "Many good companies have yet to go public."

Moreover, small entrepreneurial high-tech firms such as Ascii are still very much the exception rather than the rule.

Most venture capital activity in Japan still consists of underwriting either family-owned businesses in search of inheritance tax relief (capital gains are taxed at a much lower rate) or small, decidedly low-tech firms without the collateral required by Japan's still generally conservative banks.

Japan's burgeoning service sector has been especially receptive to venture capital. Because of their relative shortage of collateral such as land or buildings, service companies often have more difficulty getting loans from banks unwilling to extend loans on merely potential cash flow.

"We have to remember the differences in the history of industrial development," says Mr Hayashi. "In Japan, companies have been led by government authorities since the Meiji Restoration. In the US, entrepreneurs have always been in the forefront. It's a difference of corporate culture."

Yet in spite of the relative underdevelopment of Japan's venture capital market, some analysts question whether Japan really needs venture capital. Japan's economic success speaks for itself, while financial institutions such as banks have often performed a role quite different from that in the US or UK.

"Small banks in Japan have traditionally done the job of venture capital in the US," says Yoshikazu Karasawa, president of Sanwa Capital Co, a subsidiary of Sanwa Bank.

Japanese banks have always taken a much more active role in the management of firms to which they have extended loans than their American counterparts, while even today, much of Sanwa Capital's funding and client information comes from local Sanwa Bank branches.

In the end, most analysts agree, the greatest impediment to the establishment of a true venture capital industry in Japan is the long-standing fear of failure. Until this changes, many argue, Japan's venture capital industry will remain relatively small.

"If I sit and wait at my desk nothing will happen," says Mr Kanada. "We have to go out, knock on doors, and ask them to open their minds."

Robert Tomkin

VENTURE CAPITAL 7

Ian Hamilton Fazey on the state of business in 'the provinces'

Rapidly reaching maturity

THE venture and development capital group 3i (Investors in Industry) passed a noteworthy milestone this summer: it invested in its 1,000th management buyout.

In City of London terms it was a trifling deal of only £4m. The managers of Holden and Brooke, a 107-year-old pump manufacturer in the Manchester suburb of West Gorton, bought the shares of a large number of former owners, many of them relatives of descendants of the company's founders.

Holden and Brooke has been a pioneer of centrifugal pumps used in heating, air-conditioning and water supply systems in large buildings. Customers range from the G-Mex Centre in Manchester to the Houses of Parliament.

In this case, 3i has taken preference shares as means of investing new capital. While managers will have the lion's share of the ordinary share capital, a proportion will also be held by the workforce through a share trust.

Being 3i's 1,000th buyout suggests that there is nothing particularly unusual about the deal. Indeed, Holden and Brooke's emergence into manager-ownership is typical of what much of the reconstruction of UK manufacturing is now about.

But it is also what much of the regional venture capital business is about. The deal is small, relatively safe and in no need of help from London. Since buyouts involve proven companies, run by proven managers operating in proven markets, they are among the safest deals around in the present economic climate, so they are being done.

Financing such deals in what many Londoners still call "the provinces" of the UK is almost a commonplace activity nowadays, so much so that younger generations of managers may well not realise that it was not always like this.

Ten years ago, recession meant shutdown for many businesses which will today survive. It still will mean that for weak or over-geared businesses, but for many others, recession is presenting opportunities to reconstruct the ownership of some of the smaller, more efficient parts of UK industry.

Owners are selling for various reasons. In some cases, shareholdings in small, old family companies have become fragmented and of too little concentrated benefit for any of the part-owners to drive and motivate the business.

In others, groups of companies are divesting themselves of non-core subsidiaries to concentrate and target their managerial and financial resources.

There are two main differences between now and 10 years ago. Today, there is a much wider spread of able managers wanting to buy businesses and a very much wider regional availability of risk funds to help finance the deals.

The growth of the venture capital industry in the regions has been both central to these changes and consequence of them. Yet only five years ago, the amount of regionally-based venture capital was minimal.

Of course, there was 3i, the regional spread of which has been steady since it was founded as the Industrial and Commercial Finance Corporation, a title – and image – it still laboured under in 1981.

In 1985, 60 per cent of all non-3i venture capital money available went into London and the south-east, in spite of the fact that 70 per cent of VAT-registered businesses were based in the rest of the UK.

Most of the money was managed by people in London and, inevitably, "local" deals predominated. Even 3i's split – with 21 regional offices – was almost 50-50, with a slight bias to the London and the south-east.

3i's split in venture capital funds is still nearly 50-50 but the split is now slightly in favour of the regions overall and more so for 1989-90, thanks partly to a deliberate push to do more deals in the East Midlands and bring the total there closer to counterpart regions.

The table which shows the principal funds now based in the regions, is itself an indication of how the overall picture has changed. Regional venture capital is now an industry in its own right, with a firm base in most regional capital cities. Five years ago it hardly existed.

The bulk of money invested is probably still heavily skewed towards London and the south-east because bigger, sometimes international, deals are done there, but where companies in the regions had to knock hopefully on London doors in 1985, they can now find more understanding fund managers, with local knowledge, on their own doorsteps.

Many of the regional funds have institutional backing from London but few are merely representative of London money: they are run by entrepreneurial venture capitalists who hope to become rich themselves by picking winners over the next few years.

This growth in regional professionalism has been a telling feature in the development of the industry. Manchester, for example, now has well over 50 experienced managers running funds or working for them. The more able or determined have themselves spun out to set up on their own.

Recession is providing opportunities to reconstruct the ownership of some of the smaller parts of UK industry

A spell with 3i seems to have been a particularly effective training ground for many of them, although others have come from industry, commerce and professions such as accountancy and law.

A typical fund for a professional starting in the business seems to be about £5m, often followed by another of similar size once capability has been proved to investing institutions, followed soon by a third fund of say, £20m.

For example, Mr John Kerr, of Sumit Equity Ventures in Birmingham, now manages £55m in three funds, with £12m still available. Of 60 deals done in the past few years, there have been 10 failures and 15 successful realisations.

Mr Allan Hodgson, of the Edinburgh-based Hodgson Martin, has £40m under management, £25m of it in Business Expansion Scheme funds. Like some other regionally-headquartered funds, he has not felt inhibited from doing deals in a national marketplace.

Others, such as Mr Peter Folkman in Manchester and Mr Michael Denny in Newcastle, deliberately operate in the northern regions of Britain, where they have detailed knowledge of the business environment.

That said, another important factor is that the regional venture capital industry does not exist in a professional vacuum. The industry is emerging along with self-supporting clusters of financial and professional services in all major regional capitals.

In particular, Manchester, Leeds and Edinburgh have emerged strongly as financial centres in their own right, not just as satellites of London. Indeed, they are far enough away from London to exploit the distance in a way that, say, Birmingham and Bristol find more difficult because of their relative proximity to the capital.

It has meant that a full network of accountants, lawyers, brokers, and banks is available to do the deals – often within walking distance of each other – with no shuttling to London for expert help, as would have been necessary 10 years ago.

Mr Kerr says that many regional players can deal at up to £20m now on their own authority, which probably means that a £50m total deal can now be arranged or syndicated in the regions without London involvement.

It represents a rapid and considerable maturing process for venture capital in Britain, another measure of which must be that the chairman of the British Venture Capital Association is Mr Denny.

In 1986, he was seen by some in London almost as an oddity for having dared to set up a regional fund in Newcastle.

PRINCIPAL FUNDS BASED IN UK REGIONS

Fund headquarters	Contact	Telephone no
Aberdeen		
Aberdeen Fund Managers	A A Laing	0224 631 999
Barnsley/South Yorkshire		
South Yorkshire Developments	J Hattersley	0226 298 311
Birmingham		
Birmingham Technology	T F C Crawley	021-359 0981
Centreway Development Capital	J Naylor	021-643 3941
County Natwest	K White	021-236 1741
Lloyds Development Capital	M Joseph	021-200 1787
Sumit Equity Ventures	J M B L Kerr	021-200 2244
West Midlands Enterprise Board	P G Collings	021-236 8855
Bristol		
Dartington and Company Securities	S Watson	0272 213 206
Cambridge		
Cambridge Capital Management	G Montgomery	0223 312 856
Prelude Technology Investments	R Hook	0223 423 132
Cardiff		
Welsh Development Agency	C Morris	0222 222 666
Edinburgh		
Hodgson Martin	A Hodgson	031-226 7644
Ivory & Sime	R Muir-Simpson	031-225 1357
Quayle Munro	R W L Leggett	031-226 4421
Glasgow		
Murray Johnstone	I W P Tulloch	041-226 3131
Scottish Development Agency	J Tait	041-248 2700
Halifax		
Gartland and Whalley Securities	J E Barker	0422 349 401
Harrogate		
Belmont Securities	T R Cottier	0423 525 661
Leeds		
Capital for Companies	B Anyaz	0532 438 043
County Natwest	M Frank	0532 443 444
Lloyds Development Capital	G Weaver	0532 441 001
Yorkshire Enterprise	P Claydon	0532 420 505
York Trust	N Balfour	0532 460 132
Liverpool		
CLM Unit Trust	K Abbott	051-236 0221
Manchester		
Charterhouse Development Capital	S Nellies	061-236 1100
County Natwest Ventures	J Moran	061-832 8827
Edington	G D Edwards	061-834 2535
March Investment Fund	R S Marshall	061-872 3676
Mynshul Bank	R Hoyle	061-236 8897
Murray Johnstone	J Diggines	061-236 2288
North of England Venture Managers	P Folkman	061-236 6600
North West Regional Fund	C Edwards	061-834 2332
Newcastle-upon-Tyne		
Northern Venture Managers	M Denny	091-232 7068
Preston/Lancashire		
Lancashire Enterprises	R Bamford	0772 735 821
Sheffield		
Yorkshire Venture Capital	P Gilmartin	0742 722 272
Steel and coal closure areas		
British Coal Enterprise	A Hewitt	0773 531 313
British Steel (Industry)	V Smith	0742 731 612
National with regional spread		
3i		01-928 7822

Sources: Northern Venture Managers, March Investment Fund & British Venture Capital Association, 3i

PROFILE: Grove Park Foods

Bespoke financing

WHEN Manchester-based frozen food producer Grove Park Foods needed outside investment to buy new production equipment, managing director John Godwin drew up strict guidelines. The first and most important was to shop around for the most suitable deal.

Having built up and sold on two previous companies, before taking Grove from the receiver in 1986, he felt the nature of the business demanded the bespoke financing package.

"I wasn't about to take the first offer that came along. I had very clear ideas of what I wanted and that was the starting point," he said.

The need for investment was fairly urgent. Grove, which has established a niche market in the cooked chilled food sector, was being drawn into larger production runs for its frozen food clients.

To meet the demand the company needed to treble production capacity in certain areas. A cash injection of around £500,000 was needed to achieve this.

The downside was that there was no guarantee that extra demand would be sustained. The food industry, although virtually recession proof, is brand-led. The failure of new product lines can have dramatic effects on sub-contractors.

Mr Godwin explained: "Key customers, like Ross and Iceland, were very supportive, but in this industry things can change overnight.

This uncertainty made equity finance more attractive than loan finance. Mr Godwin had developed a five-year plan which would involve growth either by acquisition or on "green-field sites" and he wanted a partner who was prepared to look to the long term.

High street banks were not enthusiastic, he says, mainly because of the company's chequered history and concern over high gearing.

In spite of this, approaches were made to the Royal Bank of Scotland and NatWest Bank. The company, through financial adviser Touche Ross, was also introduced to County NatWest Ventures and Development Capital Group (DCG), the venture capital subsidiary of Lazard Brothers. DCG has about £130m of funds under management for investment in smaller businesses. The company has a portfolio of specialist and regional funds and 12 general BES funds, which together have raised around £50m.

Mr Godwin admits that the Lazard name and its City connections impressed him considerably. His first meeting with the DCG team reinforced this opinion.

DCG were almost as excited with the Grove management team. Mr Godwin had taken the company from receivership to a turnover of £3m and 100 employees. The business plan envisaged a rising turnover to £5m with margins of around 8 per cent.

Tim Donlevy, the fund director with DCG, says the size and financial requirements of Grove could almost have been tailor-made. The potential growth of the cooked chilled food sector was seen as a key to the company's future.

"It was obvious that this company would not satisfy investors looking for income, but it had considerable potential for those seeking capital growth," he said.

Mr Donlevy's team put together a £500,000 package for 49 per cent of the equity which they believed would meet the demand for flexibility and "long termism" made by Mr Godwin and also provide the best opportunities for capital growth.

The funding was drawn from one of the CDG regional funds, North West Unit Trust, and its 12th BES fund was syndicated to the Yorkshire-based Capital For Companies to spread exposure to risk.

In addition to the equity DCG put a director on the company's board, a move seen as a crucial part of the package.

Mr Donlevy said: "Although I hate using the word we do have a very hands-on approach. All our senior staff have industrial experience. We put a director in there so we can share this experience, not to watch over our investment."

Mr Godwin had also been working on a rival financing package with County NatWest. He had to choose between the two and after considerable deliberation went for the DCG deal.

"We had got quite far down the road with County, but the Lazard package struck me as less expensive, in cash terms, and more flexible," he said.

The BES element was particularly appealing. Mr Godwin admits a fondness for the idea that investors will be locked in for a five-year period.

"With an institution on board there is a sense of commitment. If in six or nine months we need another cash injection and Lazard feels it is getting a good return then we shouldn't have problems," he said.

From initial approach to the actual signing of the deal took around eight weeks. It was completed last October, allowing the company to meet urgent production demands.

Martin Regan

Charles Batchelor takes you through the vocabulary

Meaningful definitions

THE venture capital industry has created its own vocabulary to describe the financing methods it employs. As the industry has matured some of the more colourful expressions which crossed the Atlantic along with the techniques themselves in the 1970s have been dropped. Even so, many of the terms will still be unfamiliar to the would-be entrepreneur or businessman attempting to raise venture funding for the first time.

□ **Bridge finance**
Helps tide a company over until it has raised more venture capital funding or until it obtains a stock market flotation.

□ **Business Expansion Scheme**
A scheme to encourage investors to engage in risk investment by offering them tax relief at their top marginal rate, for up to £40,000 invested a year. The 1988 Budget introduced a £500,000 annual investment limit for each investee company to channel investment to smaller businesses. But recent cuts in tax rates have reduced the attractions of the BES for investors while special encouragement for investments in residential property have diverted funds away from non-property ventures.

□ **Carried Interest**
Shares or an option on shares taken by the venture capitalist in the investee company as part of the financing agreement. Usually the stake taken is 20 per cent. This is in addition to the annual management fee, normally amounting to 2.5 per cent of the amount invested, which is charged to the investors.

□ **Captive funds**
Venture capital organisations which form part of larger financial services groups. Usually they do not raise their own discrete funds but draw on the resources of their parent groups.

□ **Corporate venturing**
The practice of a large company taking a small equity stake or establishing a joint venture with a smaller business to benefit from the smaller firm's specialist expertise. The large firm can provide finance, management back-up and distribution outlets which would not be available to the smaller partner. The large company brings its innovative skills and allows the big company a ringside view of the new products and technologies it is developing. Corporate venturing links can lead to the bigger partner acquiring the smaller. Many US and some Continental companies have practised this technique though it has failed to appeal to large British companies.

□ **Deal Flow**
The number of investment propositions which come to the venture capitalist.

□ **Development Capital**
Later stage venture capital invested after two or three years when the business has become established and needs extra funds for expansion. Most venture capitalists are in fact providing development capital. The rewards are lower but the risks are correspondingly less than for early stage investments.

□ **Exit**
The point at which the venture capitalist realises all or part of his investment by either arranging a flotation of the company or, more commonly, selling it to another company or "trade buyer". A growing range of exits is becoming available and the list also includes a refinancing of the company by another group of venture capitalists or the purchase of all the shares by the company's own management.

□ **Hands on/hands off**
Some venture capitalists take a very close interest in their investee companies and will provide management expertise to help them get started and in times of difficulty. It is rare to find a venture capitalists who does not claim to be "hands on" but many, in moments of honesty, will admit to being "hands off" or passive investors.

□ **Independent funds**
Do not form part of larger financial groups. They raise their money from institutional and other investors.

□ **Internal rate of return (IRR)**
Different people calculate this in different ways but it basically means the annual rate of return to the investor. It includes dividend distributions and profits from disposals or the profits shown on a fair valuation of an investee company. Inevitably venture capitalists differ over when investments should be written down, up or off so the figures are rarely strictly comparable. Most venture capitalists set themselves a target IRR of 30 to 40 per cent on their portfolios.

□ **Living dead**
A portfolio company which is just about trading profitably but which shows little sign of ever meeting the venture capitalist's early high expectations.

□ **Lemons and Plums**
Bad investments invariably go wrong before the good ones produce the profits. The lemons usually ripen before the plums.

□ **Management buy-in**
The purchase of a business by an outside manager or team of managers with the help of a group of financial backers.

□ **Management buy-out**
The purchase of a business by its existing management with the help of a group of financial backers. Buy-outs are funded largely by loans secured on the assets of the company itself. Most of the equity comes from the venture capitalist or other financial backer. The management puts up a small amount of finance for a disproportionately large percentage of the equity.

□ **Recovery or turnaround financing**
Supplied to companies in difficulties where the venture capitalist sees an opportunity to beef up or change the management and return the company to profits. Some venture capitalists have employed insolvency specialists to identify and manage such investments.

□ **Refinancing**
Can be a sign of either failure or success. If a company performs poorly it may need an extra injection of funds. Equally, if it does very well, the management may decide to refinance the business on terms more favourable to themselves with their original venture capital backers or sometimes a new team of financiers.

□ **Replacement capital**
Funds provided to allow an existing shareholder to sell some or all of his shares.

□ **Second-round financing**
Venture capitalists rarely expect the first injection of funds to meet the needs of a business. A second or even a third round of funding will almost certainly be needed later as the business grows or unforeseen problems arise. At this stage the original venture capital investor may reduce his holding and bring in others to spread the risk.

□ **Seed Capital**
Usually quite small amounts of capital provided to turn a good idea into a marketable product or service. The riskiest form of venture capital since the concept, the technology, the entrepreneur and the market are all unproven. For this reason seed capital has been in very short supply. Some venture capitalists argue seed capital should not really be necessary since most people should be able to raise say £25,000 from savings or bank borrowings secured on their home.

□ **Spin-out**
A new company set up by a larger established group to exploit new developments or fresh market opportunities and in which the management team and a venture capital backer also take equity stakes.

□ **Star**
A company which is so successful that it pays for all the failures and humdrum performers in the venture capitalist's portfolio.

□ **Venture capital**
Equity finance provided usually to young, unquoted businesses to enable them to get started or to expand. Equity funds provide a basis for the company to raise further bank finance and provide a cheap source of funds in the early stages of the business because dividends can be delayed until the company starts making profits. Venture capitalists say they bring not only money but also management and industrial expertise to their investee companys but see Hands On above.

□ **Vulture capital**
The derogatory term applied to an offer of funds or a deal which gives the venture capitalist an unfairly large equity stake in a company.

LEADING UK VENTURE FUNDS

	Range of individual investments considered: Min. (£'000)	Max. (£'000)	Start ups	Development	Replacement	Man buy out/in	Rescue	Telephone	Sector Preference
3i GROUP	0	OPEN	Y	Y	Y	Y	Y	071 928 3131	O
ABACUS DEVELOPMENT CAPITAL	100	750	N	Y	Y	Y	N	071 323 5224	I,H
ABBOTT BUSINESS CONSULTANTS	25	300	Y	Y	Y	Y	Y	061 835 3331	O,(F),(K)
ABERDEEN FUND MANAGERS	50	500	P	Y	Y	Y	P	0224 631999	O
ABINGWORTH MANAGEMENT	250	2,000	Y	Y	Y	Y	P	071 839 6745	O,(N)
ADVENT INTERNATIONAL	500	OPEN	Y	Y	Y	Y	P	071 333 0800	O
ADVENT	300	3,000	P	Y	Y	Y	P	071 630 9811	A,B,E,I,O,(N)
AIB VENTURE CAPITAL	250	2,000	N	Y	Y	Y	N	071 606 5800	O,(D),(F),(K),(N)
ALAN PATRICOF ASSOCIATES (APA)	200	7,500	Y	Y	N	Y	Y	071 872 6300	O
ALTA BERKELEY ASSOCIATES	250	1,500	Y	Y	Y	Y	Y	071 734 4884	A,E,D,B
ARAB INTERNATIONAL TRUST CO	250	2,000	N	N	Y	Y	Y	071 434 4141	F,C,I,K,L,N
ARGOSY ASSET MANAGEMENT	250	OPEN	N	Y	P	Y	P	071 588 6000	O
AUDLEY FUND MANAGEMENT	50	OPEN	Y	Y	Y	Y	P	071 625 4545	A
AVON ENTERPRISE FUND	100	250	N	Y	P	Y	N	0272 213206	O,(N)
BANK OF BOSTON	250	2,000	N	Y	Y	Y	N	071 932 9261	A,O,(B),(C),(D)
BANKERS TRUST	500	OPEN	N	P	Y	Y	P	071 982 2500	O
BARCLAYS DEVELOPMENT CAPITAL	200	OPEN	N	Y	Y	Y	P	071 407 2389	H,I,K,M
BARCLAYS VENTURE CAPITAL UNIT	100	OPEN	Y	Y	Y	Y	Y	071 242 4900	O
BARING BROTHERS HAMBRECHT & QUIST	0	1,500	Y	Y	P	P	P	071 408 0555	O
BARING CAPITAL INVESTORS	2,000	OPEN	N	Y	Y	Y	N	071 408 1282	O
BARNES THOMSON MANAGEMENT	100	500	P	Y	Y	Y	N	071 487 3870	B,A
BARONSMEAD	200	2,000	P	Y	Y	Y	N	071 242 4900	O,A,B,H
BIOTECHNOLOGY INVESTMENTS	0	3,000	Y	Y	N	N	N	071 280 5000	D,E
BIRMINGHAMTECHNOLOGYVENTURECAPITAL	10	250	Y	Y	P	Y	P	021 359 0981	A,B,D,E,H,K,L,C
BRITISH TECHNOLOGY GROUP	200	1,000	Y	Y	N	P	N	071 403 6666	O,(H),(M),(N)
BROWN SHIPLEY DEVELOPMENT CAPITAL	1,000	5,000	N	Y	Y	Y	N	071 606 9833	O
CAMBRIDGE CAPITAL MANAGEMENT	200	700	N	Y	P	Y	P	0223 312856	O,(N),(P)
CANDOVER INVESTMENTS	2,000	OPEN	N	Y	P	Y	P	071 489 9848	O,(D),(F),(G)
CAPITAL FOR COMPANIES	100	250	P	Y	Y	Y	N	0532 438043	O
CAPITAL PARTNERS INTERNATIONAL	5	350	Y	Y	Y	Y	P	071 351 4899	O
CAPITAL VENTURES	30	2,000	Y	Y	P	Y	N	0242 584380	O
CAPITAL WEST	500	OPEN	N	Y	P	Y	N	0272 213206	O
CAUSEWAY CAPITAL	250	5 000	Y	Y	Y	Y	Y	071 495 2525	O
CENTREWAY DEVELOPMENT CAPITAL	100	1,000	N	Y	Y	Y	P	021 643 3941	A,B,E,G,H,I,L,M,N
CHARTERHOUSE DEVELOPMENT CAPITAL	100	25,000	P	Y	Y	Y	N	071 248 4000	O
CHARTERHOUSE VENTURE FUNDS	300	2,000	Y	Y	Y	Y	N	071 409 3232	A,E,C,F,B
CHARTFIELD & CO	200	1,000	N	Y	Y	Y	Y	0 71 608 1451	O
CHASE INVESTMENT BANK	500	10,000	N	Y	Y	Y	N	071 726 5000	O
CIN VENTURE MANAGERS	250	OPEN	Y	Y	Y	Y	P	071 245 6911	O
CITICORP VENTURE CAPITAL	500	OPEN	N	Y	Y	Y	Y	071 234 2767	O
CLOSE INVESTMENT MANAGEMENT	750	5,000	N	Y	Y	Y	Y	071 283 2241	O
CLYDESDALE BANK EQUITY	250	OPEN	P	Y	Y	Y	P	041 248 7070	O,A,(N)
CONSOLIDATED CREDITS INVESTMENT CAPITAL	50	2,000	P	Y	P	P	Y	081 998 8822	H,N,(B)
COUNTY NATWEST VENTURES	250	OPEN	P	Y	Y	Y	Y	071 375 5000	(D),(N),(G),C
CREDITANSTALT DEVELOPMENT CAPITAL	500	OPEN	N	N	N	Y	N	071 822 2600	O
CYGNUS VENTURE PARTNERS	250	OPEN	Y	Y	Y	Y	Y	0895 72601	A,B,C,D,E,I,L,P
DARTINGTON & CO SECURITIES	100	250	N	Y	N	Y	N	0272 213206	O
DERBYSHIRE ENTERPRISE BOARD	50	500	Y	Y	Y	Y	Y	0246 207 390	O,(N)
DEVELOPMENT CAPITAL CORPORATION	1,000	10,000	Y	Y	Y	Y	P	071 491 0767	O,E,H,M,N
DEVELOPMENT CAPITAL GROUP	250	OPEN	Y	Y	Y	Y	Y	071 935 2731	O
DONCA STER ENTERPRISE AGENCY (FINANCE)	10	100	Y	Y	N	N	P	0302 340320	O
DUNEDIN VENTURES	150	1,500	N	Y	Y	Y	Y	031 315 2500	O
E.M. WARBURG, PINCUS & CO INT	3,000	25,000	P	Y	Y	Y	Y	071 321 0129	O,H,A,E
EAGLE STAR INVESTMENT MANAGERS	250	OPEN	Y	Y	Y	Y	Y	071 929 1111	O
ECI VENTURES	1,000	5,000	Y	Y	Y	Y	Y	071 606 1000	O,(F),(N)
ELECTRA INNVOTEC	300	2,000	Y	Y	P	N	N	071 831 9901	O,(G),(H),(M),(N)
ELECTRA KINGSWAY	2,000	OPEN	Y	Y	Y	Y	Y	071 831 6464	O,P,H
ELECTRA LEISURE	500	OPEN	Y	Y	Y	Y	Y	071 831 6464	H
ENTERPRISE EQUITY (NI)	20	700	Y	Y	N	Y	N	0232 242500	O
EUROCONTINENTAL (ADVISERS)	250	2,500	P	Y	P	Y	P	071 600 1689	A,D,M,I,B
FLEMING VENTURES	500	1,000	N	Y	Y	Y	N	071 480 6211	A,B,C,E,M
FOREIGN & COLONIAL VENTURES	500	5,000	N	Y	Y	Y	Y	071 782 9829	O
GARTMORE INVESTMENT	300	5,000	Y	Y	Y	Y	Y	071 623 1212	O,(B),(C)
GPI	500	OPEN	N	Y	Y	Y	Y	071 222 8161	F,I,N,M
GRANVILLE & CO	200	OPEN	Y	Y	Y	Y	Y	071 488 1212	O
GREAT WINCHESTER CAPITAL FUND MANAGERS	250	750	P	Y	Y	Y	Y	071 588 7575	O
GREATER LONDON ENTERPRISE	5	500	Y	Y	Y	Y	P	071 403 0300	O
GRESHAM TRUST	250	1,500	N	Y	Y	Y	P	071 606 6474	O,(N)
GROSVENOR VENTURE MANAGERS	200	2,000	N	Y	Y	Y	P	0753 811812	O
GUIDEHOUSE	50	1,000	Y	Y	Y	Y	Y	071 626 5858	O
GUINNESS MAHON DEVELOPMENT CAPITAL	50	OPEN	P	Y	N	Y	N	071 623 9333	O,E,D
HAMBRO EUROPEAN VENTURES	150	OPEN	P	Y	Y	Y	Y	071 702 3599	O,(B),(C),(D)
HAMBROS ADVANCED TECHNOLOGY TRUST	50	500	Y	Y	P	N	P	071 242 9900	A,C,E,D,B
HIGHLANDS AND ISLANDS ENTERPRISE	0	400	Y	Y	N	N	Y	0463 234171	O,(M),(N)
HILL SAMUEL DEVELOPMENT CAPITAL	500	2,500	N	Y	Y	Y	Y	071 628 8011	O
HMG GROUP	100	2,000	Y	Y	Y	Y	Y	071 623 3838	O
HODGSON MARTIN	100	1,000	P	Y	P	Y	P	031 226 7644	O,(B)
INDUSTRIAL DEVELOPMENT BOARD FOR NORTHERN IRELAND	0	OPEN	Y	P	N	P	Y	0232 233233	O
IVORY AND SIME DEVELOPMENT CAPITAL	100	10,000	N	Y	Y	Y	Y	031 225 1357	O
JAMES FINLAY BANK	50	500	P	Y	P	Y	N	041 204 1321	O,(D),(K)
KELLOCK VENTURES	100	400	Y	Y	N	Y	N	0734 585511	O
KLEINWORT BENSON DEV CAPITAL	500	OPEN	P	Y	Y	Y	P	071 956 6600	O
KORDA & COMPANY	30	400	Y	N	N	N	N	071 253 5682	B,D,F
LANCASHIRE ENTERPRISES	0	500	Y	Y	Y	Y	Y	0772 203020	O
LARPENT NEWTON & CO	50	750	Y	Y	Y	Y	Y	071 251 9111	A,B,D,L
LEDU – SMALL BUSINESS AGENCY N IRELAND	3	450	Y	Y	N	Y	Y	0232 491031	B,C,H,I,E
LEGAL & GENERAL VENTURES	500	50,000	Y	Y	Y	Y	Y	071 489 1888	O
LICA DEVELOPMENT CAPITAL	100	OPEN	Y	Y	Y	Y	Y	071 839 7707	O,(H),(N),(P)
LLOYDS DEVELOPMENT CAPITAL	250	OPEN	N	Y	Y	Y	N	071 600 3226	O
LONDON WALL INDUSTRIAL CONSULTANTS	25	75	P	Y	P	Y	N	0923 285199	H,M,I
LONDON WALL INVESTMENTS	1,000	OPEN	N	Y	Y	Y	P	071 638 5362	O,(D),(K)
LOTHIAN ENTERPRISE	10	250	Y	Y	P	Y	P	031 220 2100	O
MARCH INVESTMENT FUND	100	1,500	P	Y	Y	Y	P	061 872 3676	O
MERCURY ASSET MANAGEMENT	1,000	30,000	P	Y	Y	Y	P	071 280 2800	O
METROGROUP CAPITAL	50	400	N	Y	Y	Y	Y	071 437 0483	A,H
MIDLAND MONTAGU VENTURES	500	OPEN	P	Y	Y	Y	P	071 260 9911	O
MIM DEVELOPMENT CAPITAL	250	10,000	P	Y	P	Y	N	071 626 3434	O
MINSTER TRUST	100	500	P	Y	Y	Y	N	071 623 1050	O
MORGAN GRENFELL DEVELOPMENT CAPITAL	1,000	20,000	N	Y	Y	Y	P	031 557 8600	O,(N)
MORRIS, STEWART-BROWN & CO	25	OPEN	Y	Y	Y	Y	Y	071 248 2694	O
MTI MANAGERS	250	750	Y	Y	N	Y	Y	0923 50244	A,B,C,D,E,I,K,L
MURRAY JOHNSTONE	250	25,000	N	Y	Y	Y	N	041 226 3131	O
NOBLE & CO	50	OPEN	Y	Y	Y	Y	P	031 225 9677	O
NOBLE GROSSART	100	3,000	Y	Y	Y	Y	Y	031 226 7011	O
NORTH OF ENGLAND VENTURES	200	2,000	P	Y	Y	Y	Y	061 236 6600	O,(N)
NORTH WEST REGIONAL FUND	50	400	P	Y	Y	Y	N	061 834 2332	O,(D),(G),(N)
NORTHERN IRELAND VENTURE CAPITAL	20	200	Y	Y	Y	Y	Y	0232 230781	O,I,C,N
NORTHERN VENTURE MANAGERS	25	OPEN	Y	Y	Y	Y	Y	091 232 7068	O
NORWICH UNION VENTURE CAPITAL	250	2,500	P	Y	Y	Y	N	0603 683803	O,(N),(P)
OAKLAND INVESTMENT MANAGEMENT	400	1,000	P	Y	N	Y	N	0488 683555	B,C,E,H,I,M
OCTAGON INVESTMENT MANAGEMENT	150	750	Y	Y	Y	Y	P	0223 423033	A,B,C,L
OXFORD SEEDCORN CAPITAL	10	100	Y	Y	N	N	N	0865 53535	A,B,C,D,E,F
PHILDREW VENTURES	500	15,000	P	Y	Y	Y	P	071 628 6366	O,(F),(N)
PIC CAPITAL GROUP	3,000	100,000	N	N	Y	Y	N	071 283 8122	O
PINE STREET INVESTMENTS	500	3,000	Y	Y	Y	Y	N	071 225 3911	P
PIPER INVESTMENT MANAGEMENT	100	1,000	Y	Y	P	Y	P	071 727 3986	M,H
PRELUDE TECHNOLOGY INVESTMENTS	20	1,000	Y	Y	N	N	P	0223 423132	B,C,D,E,I,K
PRUDENTIAL VENTURE MANAGERS	500	20,000	P	Y	Y	Y	P	071 831 7747	O
QUAYLE MUNRO	250	1,500	N	Y	Y	Y	P	031 226 4421	F,H,I,M
QUESTER CAPITAL MANAGEMENT	100	1,000	Y	Y	Y	Y	Y	071 222 5472	O
REGENT STREET VENTURES	75	1,000	Y	Y	Y	Y	P	0226 296100	O,(G),(N)
ROTHSCHILD VENTURES	100	2,500	Y	Y	Y	Y	Y	071 280 5000	O,(N)
SCHRODER VENTURES	500	25,000	Y	Y	Y	Y	Y	071 632 1000	E,B,C,H,(N)
SCIMITAR DEVELOPMENT CAPITAL	300	2,500	N	Y	Y	Y	N	071 487 5914	O,(N),(F)
SCOTTISH DEVELOPMENT AGENCY	5	1,000	Y	Y	N	Y	Y	041 248 2700	F,D,I,C,B,E,G
SECURITY PACIFIC HOARE GOVETT EQUITY VENTURES	500	OPEN	N	Y	Y	Y	Y	071 374 1798	O,(N),(D)
SECURITY PACIFIC VENTURE CAPITAL	0	OPEN	Y	Y	N	Y	N	071 925 2395	O
SEED CAPITAL	5	40	Y	N	N	N	Y	0491 579 999	B,C,A,D,I,E,L
STEWART, IVORY & CO	500	2,000	P	Y	Y	Y	P	031 226 3271	O,(G),(N)
ST JAMES'S VENTURE CAPITAL FUND	100	750	Y	Y	P	Y	P	071 431 4381	B,C
SUMIT EQUITY VENTURES	150	5,000	P	Y	Y	Y	Y	021 200 2244	I,M,C,O
SUN LIFE INVESTMENT MANAGEMENT SERVICES	250	2,000	P	Y	Y	Y	P	071 606 7788	O
TAYSIDE ENTERPRISE BOARD	25	150	Y	Y	N	Y	P	0382 621030	O,(N),(H)
THOMPSON CLIVE & PARTNERS	0	3,000	Y	Y	Y	Y	Y	071 491 4809	O,(F),(G),(K),(M)
TRANSATLANTIC CAPITAL (BIO SCIENCES)	50	500	Y	Y	N	Y	Y	071 224 1193	D,E
ULSTER DEVELOPMENT CAPITAL	50	500	N	Y	Y	Y	Y	0232 246765	O
ULSTER VENTURE CAPITAL	10	250	Y	Y	N	Y	Y	0232 246678	O
VENTURE FOUNDERS	100	600	Y	P	N	P	P	0695 824015	A,B,D,E,(N)
VENTURE LINK (INVESTORS)	100	1,500	Y	P	P	P	N	0628 771 050	A,B,C,D,E
WELSH DEVELOPMENT AGENCY	3	500	Y	Y	P	Y	P	0222 222666	O,(G)
WEST MIDLANDS ENTERPRISE BOARD	75	750	P	Y	P	Y	P	021 236 8855	O,(N),P
YORKSHIRE BANK DEVELOPMENT CAPITAL	250	2,000	N	Y	Y	Y	N	0532 442 848	O,(N)
YORKSHIRE ENTERPRISE	50	1,000	Y	Y	Y	Y	Y	0532 420505	I,L,M,H
YORKSHIRE FUND MANAGERS	250	1,250	N	Y	Y	Y	Y	0532 460132	A,B,C,I,M
YORKSHIRE VENTURE CAPITAL	200	500	N	Y	Y	Y	N	0742 722272	O,(N)
YOUNG ENTREPRENEURS FUND	25	100	Y	Y	N	Y	N	081 783 1099	O

Key: Y = Yes, P = Possible, N = No. Sector Preferences: A = Communications, B = Computer Related, C = Other Electronic Related, D = Biotechnology, E = Medical, Health, F = Energy, Natural Resources, G = Agriculture, H = Consumer/Related Products, I = Industrial Products, K = Space and Aviation Industry, L = Industrial Automation, M = Wholesale, Trade, Distribution, N = Property, O = Anything, P = Financial Services. Any letter in brackets indicates a preference not to invest in that sector.

Source: KPMG Peat Marwick McLintock (reference John Rustler)

هكذا منو الأصل

VENTURE CAPITAL 9

LEADING EUROPEAN VENTURE FUNDS

FUND MANAGERS	Range of individual investments considered (all figs. in ECU '000) Min.	Max.	Start ups	Development	Man buy out/in	Rescue	Telephone
AUSTRIA							
CA-3Banken Venture Fonds AG	215	720	Y	Y	Y	N	43 222/31007310
BELGIUM							
Advent Management	220	na	N	Y	Y	Y	32 2/720.70.07
Benevent Management	250	1,200	Y	Y	Y	N	32 2/725.14.40
Euroventures Benelux Team	250	3,500	Y	Y	Y	Y	32 2/725.18.38
G.I.M.V. Investment Company for Flanders	220	3,000	Y	Y	Y	Y	32 3/248.23.21
Investco	110	2,300	Y	Y	Y	N	32 2/513.45.20
Isep	100	1,100	Y	Y	Y	N	32 2/734.99.09
Lim Limburg Investment Company	200	1,000	N	Y	Y	N	32 11/22.21.77
Prominvest	450	1,200	Y	Y	Y	Y	32 2/517.28.72
S.R.I.W. Société Regionale d'Investissement de Wallonie	220	na	Y	Y	N	N	32 81/32.22.11
Société D'Investissement de la Province Namur	100	1,000	Y	Y	N	N	32 81/22.59.03
Vlaamse Investeringvennootschap	120	4,500	Y	Y	Y	N	32 91/24.08.94
DENMARK							
Danish Development Finance Corporation	20	2,000	Y	Y	N	N	45 39/66.04.00
Dansk Kapitalanlaeg	300	5,000	Y	Y	Y	Y	45 33/15.70.30
Danventure Invest	375	2,500	Y	Y	Y	Y	45 31/68.15.68
Difko Partner	64	128	Y	Y	N	N	45 33/12.73.33
Investor Venture	500	2,500	Y	Y	Y	Y	45 31/62.01.74
Lalandia Invest	30	1,250	Y	Y	N	N	45 53/92.78.00
FINLAND							
Capman Capital Management	500	2,000	N	Y	Y	N	358 0/680.11.44
Industrialization Fund of Finland	500	5,000	N	Y	Y	N	358 0/133.566
Lakespo	20	1,000	Y	Y	Y	Y	358 698/21.601
Norptor	32	900	Y	Y	Y	N	358 0/450.48.4
OKO-Venture Capital	100	2,000	Y	Y	Y	N	358 0/404.25.49
Sitra (Finish Nat. Fund Research & Development)	na	2,000	Y	Y	N	N	358 0/61.89.91
Tekinnova	50	200	Y	N	N	N	358 0/43.75.1
FRANCE							
Agrinova	72	720	Y	Y	N	N	33 1/433.557.69
Alan Patricof Associés	150	3,000	Y	Y	N	Y	33 1/455.303.78
Alpha Associes	714	2,857	N	Y	Y	N	33 1/42.85.3000
Banexi	75	10,000	Y	Y	Y	N	33 1/401.440.65
Citicorp Venture Capital	1,000	na	N	Y	Y	N	33 1/490.612.72
Compagnie Financière du Scribe	150	2,250	Y	Y	N	N	33 1/474.280.28
Edelson Technology Partners	80	1,600	Y	Y	Y	Y	33 1/4553.8984
Epargne Partenaires	500	20,000	N	N	Y	Y	33 1/43.06.8755
Euroventures France	300	1,500	N	Y	N	N	33 1/400.705.18
Finovelec	100	1,000	Y	N	N	N	33 47/47.69.00
Idianova	15	3,000	Y	Y	N	N	33 1/435.991.41
Innolion	73	730	Y	Y	N	N	33 1/426.171.76
Innovacom	140	720	Y	Y	N	N	33 1/42.21.7060
Innovation Smart Card Ventures	na	na	Y	Y	Y	Y	33 1/480.019.20
Innovest	30	700	Y	Y	Y	N	33 88/32.98.50
IPP Inst Provincal de Participation	50	100	Y	Y	Y	N	33 91/54.91.12
Pallas Venture	500	2,000	Y	Y	Y	N	33 1/428.932.09
Paribas-Département Capital Risque	150	15,000	N	Y	N	N	33 1/429.805.25
Partech Associates	100	1,000	Y	Y	N	N	33 1/429.819.44
Siparex	150	3,000	N	Y	Y	N	33 78/52.41.07
SNEA-Société Nationale Elf Aquitaine	150	450	Y	Y	Y	Y	33 1/474.421.24
Sofineti	250	1,000	N	Y	Y	Y	33 1/455.091.00
Sofinnova	500	3,000	Y	Y	N	N	33 1/428.068.70
Soginnove	145	1,000	Y	Y	N	N	33 1/474.270.60
Suez Ventures	150	1,000	Y	Y	N	N	33 1/400.664.00
Thomson-CSF Ventures	150	1,500	Y	Y	N	N	33 1/490.784.20
WEST GERMANY							
Deutsche Beteiligungsgesellschaft	238	19,000	Y	Y	Y	Y	49 69 /719.12.80
Genes Gmbh Venture Services	250	2,500	Y	Y	Y	N	49 2234/590.76
IDP Industrial Development Partners	225	1,500	N	Y	N	N	49 6174/40.17
Matuschka Gruppe	500	500,000	N	Y	Y	N	49 89/558.79.01
Neu-Europa Hitec & Biotec	225	3,000	N	Y	Y	Y	49 30/8 84.29.30
Technologieholding VC	250	2,500	Y	Y	N	N	49 89 /15.50.74
TIG Technologie Investitions	250	2,000	Y	Y	N	N	48 30/882.72.01
TVM Techno Venture Management Gmbh & CO KG	225	2,500	N	Y	Y	N	49 89/381.70.50
IRELAND							
AIB Venture Capital	200	5,000	Y	Y	Y	Y	353 1/60.47.33
DCC Development Capital Corporation	130	2,500	Y	Y	Y	Y	353 1/83.10.11
ICC Corporate Finance	70	2,000	Y	Y	Y	Y	353 1/72.00.55
The National Development Corporation	na	na	Y	Y	Y	N	353 1/60.06.11
ITALY							
Credipar	370	2,600	N	Y	Y	N	39 6/482.58.51
Finbiotec	100	1,300	Y	Y	N	N	39 2/851.92.39
Friulia S.P.A. Fin. Reg. Friuli Venezia	50	11,000	Y	Y	Y	Y	39 40/670.220
Iniziativa	200	530	N	Y	Y	N	39 11/74.86.86
Invest	300	20,000	N	Y	Y	N	39 2/721.041
Palladio Finanziaria	na	33,000	N	Y	Y	Y	39 444/320.222
Raggio di Sole Biotecnologie	150	1,000	Y	Y	N	N	39 6/910.74.94
Società Finanziara di Partecipazione	600	6,700	Y	Y	Y	Y	39 6/844.06.41
SPI Prom. e Sviluppo Imprenditoriale	na	3,000	Y	Y	N	N	39 6/85.45.41
LUXEMBOURG							
INT. Venture Capital Partners	250	750	Y	Y	Y	N	352.48.94.28
NETHERLANDS							
Aegon Participatiemaatschappij	100	na	N	Y	Y	Y	31 70/344.86.18
Algemene Participatiemaatschappij	200	6,500	Y	Y	Y	Y	31 20/29.80.26
Atlas Venture Holding	400	na	Y	Y	Y	Y	31 20/97.31.31
Brabant	2000	na	N	Y	Y	Y	31 30/57.30.82.
Bunge Participatie	400	1,200	Y	Y	Y	N	31 10/433.07.0 0
Dana Services	50	500	Y	Y	Y	N	31 2153/87.128
De Nationale Investeringsbank	380	1,150	N	Y	Y	N	31 70/342.54.25
Euroventures	na	na	Y	Y	Y	Y	31 73/13.78.00
Euroventures Germany Management	250	2,500	Y	Y	Y	N	31 40/45.17.35
Gilde Venture Fund	100	4,000	N	Y	Y	N	31 30/51.05.34
Halder Holdings	400	1,000	Y	Y	Y	Y	31 70/3618.618
Holland Venture Beheermaatschappij	95	360	N	Y	Y	Y	31 20/97.68.41
HOM Consultancy	200	1,500	Y	N	Y	N	31 70/34.69.643
Industriebank Liof	40	200	Y	Y	Y	N	31 43/28.02.80
Intercapital Investments	750	1,500	N	Y	Y	Y	31 2503/415.54
Mees & Hope Participaties	200	1,600	N	Y	Y	Y	31 20/52.79.111
MIP Equity Fund	500	na	N	Y	Y	N	31 70/346.92.65
Nederlandse Participatie Maatschappij	215	17,000	N	Y	Y	Y	31 20/57.05.55
Nesbic Holding	100	2,000	Y	Y	Y	Y	31 30/42.23.60
Parcom Beheer	200	4,000	Y	Y	Y	Y	31 70/365.59.10
Particuliere Participatiemij. Amro	80	na	N	Y	Y	Y	31 20/28.62.43
Partno Management	na	800	Y	Y	Y	N	31 20/97.74.01
UPM Groep	100	80	Y	Y	Y	Y	31 30/51.42.88
Venture Fund Rotterdam	na	4,300	N	Y	Y	Y	31 10/414.34.44
NORWAY							
Origo Ventures	170	1,300	Y	Y	N	N	47 2/33.12.12
Teknoinvest Management	200	2,000	N	Y	N	N	47 33/46.700
PORTUGAL							
Nor-Risco, Capital de Risco	na	na	N	Y	Y	N	351 2/31.20.18
Norpedip-Sociedade Para O Desenvolvimento Industrial	220	6,000	Y	Y	Y	N	351 2/610.20.87
Promindustria Soc. Port. Cap de Risco	60	1,200	Y	N	N	N	351 1/771736/46
SFIR, Sociedade de Financiamento e Investimento de Risco	58	695	Y	Y	Y	Y	351 1/690.619
SPR-Sociedade Portuguesa de Capital de Risco	na	1,000	Y	Y	Y	N	351 2/66.71.65.
Sulpedip-Sociedade Para O Desenvolvimento Industrial	100	1,000	Y	N	N	N	351 1/76.72.84
Unirisco Sociedad de Capital de Risco	na	361	N	Y	Y	N	351 17950022/23
SPAIN							
BBV de Promocian Empresarial	500	na	N	Y	Y	Y	34 1/336.20.78
BBVG Gestora de Inversiones	75	na	Y	Y	Y	Y	34 1/563.71.49
Empressa Nacional de Innovacion	150	na	Y	Y	Y	Y	34 1/255.50.22
Euroventures Espana	300	12,500	Y	Y	Y	Y	34 1/457.35.58
Gestion de Capital Riesgo	75	550	Y	Y	N	N	34 4/ 441.35.12
Sevilla 93	na	750	Y	Y	Y	N	34 54/62.66.11
Soc. Gestora de Fomento Empresarial	218	2,899	N	Y	N	N	34 1/435.35.90
SWITZERLAND							
Baring Brothers Hambrecht & Quist	100	3,000	Y	Y	Y	Y	41 22/46.46.55
Euroventures Genevest Management	275	1,000	Y	Y	Y	Y	41 22/43.50.00
VA Ventures Associates	50	250	Y	Y	N	Y	41 31/94.96.06

Source: KPMG Peat Marwick McLintock - Venture Capital Database

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3i

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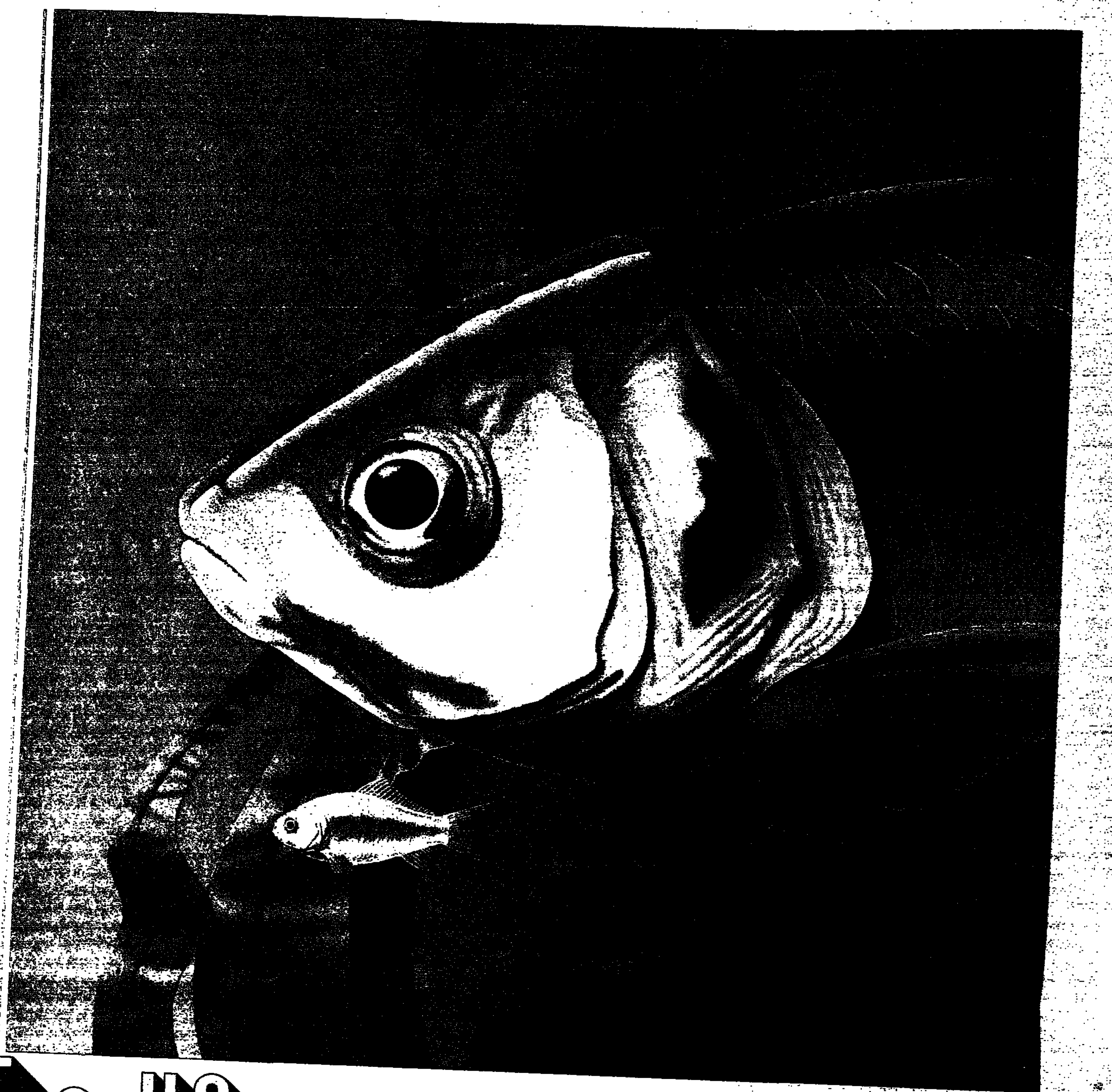

TO US THEY'RE THE SAME SIZE.

What might at first seem rather alarming evidence of defective vision is a guiding principle at 3i. Over the years that we have grown to be Britain's leading investment capital company we have always tried to treat everyone we meet in exactly the same way.

Whether you need £20,000 or £20 million our philosophy as successful investors in industry remains the same. That is not to say that we are inflexible; quite the reverse. At 3i we know that the best way to ensure consistent success is to produce individually tailored solutions to different problems. And as our success is ultimately based on yours, it is in our interest to do our best to help you succeed. This also means we are very happy to give a long-term commitment to your business.

And that long-term view is another reason why we think the fish are the same size. In time your minnow could become tomorrow's Leviathan but at every point in the business cycle 3i can offer you solutions.

As long-term investors in industry, 3i has the experience that can help you buy the company you work for, buy into another company or set up your own business. If you fancy sticking a toe in the water get in touch with your local 3i office.

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